CONSTRUCTION INTELLIGENCE CENTER

CONSTRUCTION CONFIDENCE REPORT, Q3 2017

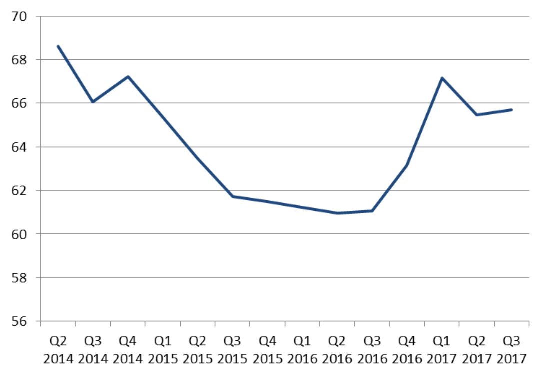
October 2017

timetric

1. Executive Summary

Confidence levels among construction industry executives increased modestly in Q3 2017, according to the latest update of Timetric's Construction Confidence Survey. The Construction Confidence Index (CCI) ticked up to 65.7 in Q3 2017, from 65.5 points in Q2 2017. In Q1 2017, the CCI reached a two year high of 67.2, but has since lost some ground, although it remains above results achieved throughout 2015 and much of 2016. With the CCI score comfortably above the 50-point mark, industry executives remain optimistic about growth prospects in the coming six months.

Figure 1: Current Confidence Index



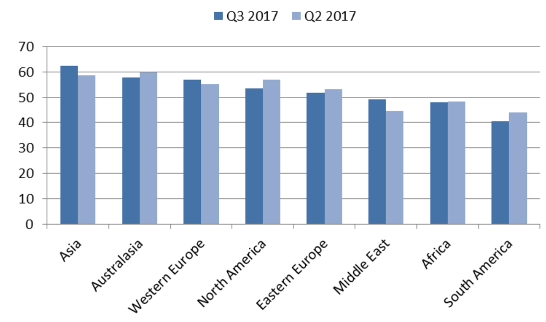
Source: Timetric

Note: Index >50 implies responents are optimsitic about growth prospects; index <50 implies respondents are pessimistic about growth prospects; index =50 implies respondents are neither optimisitc or pessimistic.

The global Economic Impact Index (EII) edged upwards in Q3 2017, from 51.2 to 53.3. The index is above 50 and this signifies that overall respondents believe the global economy is having a favorable impact on their industry. The recovery in the Eurozone is ongoing, with positive growth in economies and the construction industry in most markets. The improved EII score for Western Europe reflects this improving sentiment.

Among the regions, the EII is highest in Asia, notably because India and China are expected to maintain strong and consistent growth, and the region's EII score edged upwards in Q3 2017. The EII for North America dropped in this quarter, with investors likely becoming increasingly worried over the Trump administration's delayed infrastructure plan and stalled legislative agenda.

Figure 2: Economic Impact Index



Source: Timetric

Note: Index >50 implies favorable impact; index <50 implies unfavorable impact; index =50 implies stable conditions.

In terms of the leading indicators analysed in the survey, sales are generally expected to increase over the next six months, while headcount is also expected to increase slightly. In total 48% of respondents anticipate an increase in staff headcount while 37% expect no change, and only 15% expect a reduction. Regarding expectations of sales over the next six months, 80% of respondents anticipate an increase, and 14% expect no change. Raw materials prices are expected to rise over the coming six months, with 80% of respondents predicting an increase. Energy prices are also set to increase over the forecast period, with 70% of respondents predicting an upturn.

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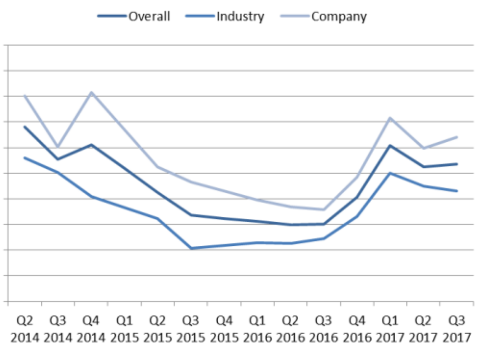
Confidence levels across the global construction industry increased slightly in Q3 2017, with the overall Current Confidence Index (CCI) coming in at 65.7, up from 65.5 in Q2 2017. In Q1 2017, the CCI reached a two year high of 67.2, but has since lost some ground, although it remains above results achieved throughout 2015 and much of 2016.

Figure 3: Current Confidence Index, with Industry and Company Components



Source: Timetric

Note: Index >50 implies respondents optimsitic about growth prospects; index <50 implies respondents pessimistic about growth prospects; index =50 implies respondents neither optimisitc or pessimistic

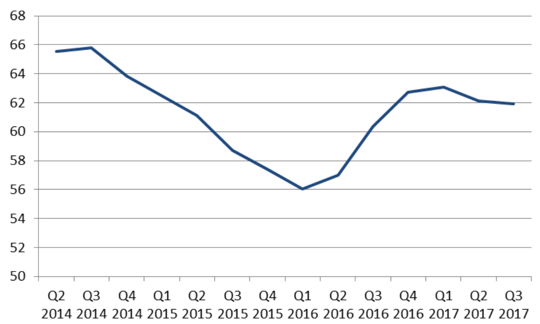
Confidence in the prospects of growth at the company level remain higher than confidence in the industry as a whole. This can be attributed to the respondents' perception bias in terms of their own company's relative competitiveness. In Q3 2017 the CCI at the company level stood at 67.8, above the 63.6 points at the industry level.

Confidence levels remain at an optimistic level due to a number of global factors. In Asia, both China and India's economies continue to exhibit fast paced GDP growth while a number of other Asian economies benefit from a well-diversified export base. In North America, economic growth has remained strong despite fears of economic instability following the 2016 election, and the region's score remains in expansionary territory.

Latin America remains in a troubled position, with both Brazil and Venezuela continuing to experience economic turmoil, but the outlook for Mexico and Argentina is positive. Low oil prices continue to weigh on a number of economies, particularly those without a diversified export base.

The Expected Confidence Index (ECI) fell in Q3 2017 to 61.9, down from 62.1. This marks the second successive quarter of contractions in this measure, following four successive quarters of growth.

Figure 4: Expected Confidence Index



Source: Timetric

Note: Index > 50 implies respondents expect positive changes in confidence levels; index <50 implies respondents expect negative changes in confidence levels; index =50 implies respondents expect no change in confidence levels

Table 1: Construction Confidence Scores

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
CCI	61.7	61.5	61.2	61.0	61.0	63.2	67.2	65.5	65.7
ECI	58.7	58.3	56.0	57.0	64.0	62.7	63.1	62.1	61.9

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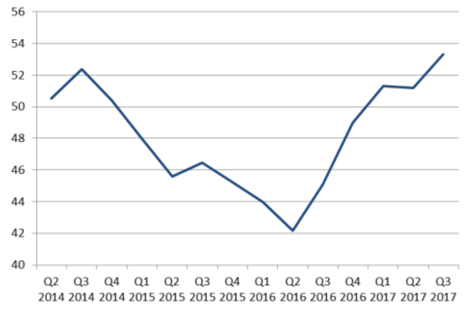
3. Economic Impact Index

3.1. Global

The Economic Impact Index (EII) at the global level stood at 53.3 points in Q3 2017, improving from an average of 52.2 points in Q1 and Q2 2017. Following a two year period of decline to Q2 2016, the index has recorded a sustained period of improvement. The index remains above 50, signifying that respondents believe the global economy continues to have an overall favorable impact. Following three consecutive quarters of growth, the index fell slightly in Q2 2017, but has now returned to expansionary territory.

Figure 5: Economic Impact Index - Global



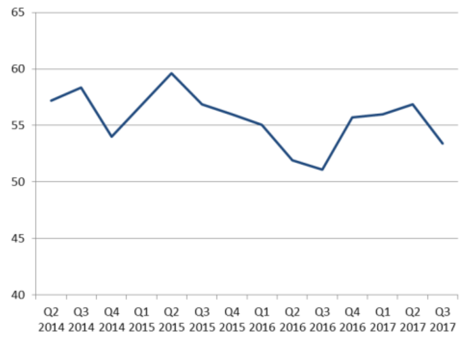
Source: Timetric

Note: Index >50 implies favorable impact; index <50 implies unfavorable impact; index =50 implies stable conditions.

3.2. North America

The EII for North America registered a fall, dropping to 53.4 in Q3 2017 from 56.9 in Q2 2017. Despite some modest gains in recent quarters, the latest drop follows a pattern of sustained declines, although it remains in expansionary territory. Economic growth is strong in the region despite fears of economic instability following the 2016 US election. Nevertheless, investors are becoming increasingly worried over the Trump administration's delayed infrastructure plan and stalled legislative agenda.

Figure 6: Economic Impact Index - North America



Source: Timetric

3.3. Latin America

The EII score for Latin America dropped to 40.5 in Q3 2017. This follows a large upswing in Q2 2017 reversing a prolonged period of decline. The index remains below 50 and is firmly in contractionary territory, and major economic and political challenges persist throughout the region.

Figure 7: Economic Impact Index - Latin America

Source: Timetric

3.4. Western Europe

Western Europe registered a small uptick in its EII score in Q3 2017, rising to 56.8 from 55.1, reflecting clearer signs of a sustained recovery in major economies in Western Europe. There has been modest growth across Western Europe in 2017. Across the region, the economic outlook is picking following generally weak growth in the preceding years. Such recovery remains fragile, however, and downside risks remain pertinent.

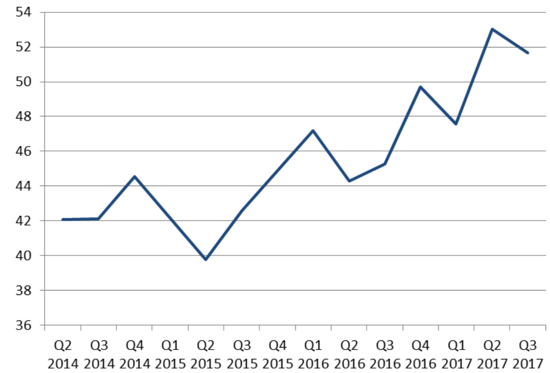
Figure 8: Economic Impact Index - Western Europe

Source: Timetric

3.5. Eastern Europe

There has been a modest decline in the EII score for Eastern Europe in Q3 2017, falling to 51.7 from 53.0 in Q2 2017. Despite this drop, the region remains in expansionary territory following a period of low scores. A number of Eastern European economies have been exhibiting strong growth in 2017, such as Hungary and Estonia, with momentum growing throughout the year. Sustained economic growth in the Eurozone, Eastern Europe’s main trading partner, is also benefiting the region. The economic outlook for Poland remains positive while the gradual recovery of the Russian economy continues despite ongoing economic and political risks.

Figure 9: Economic Impact Index - Eastern Europe

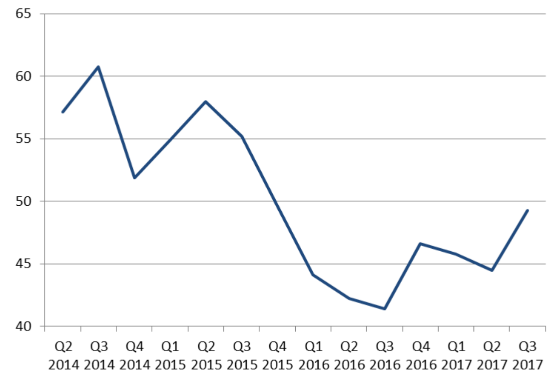


Source: Timetric

3.6. Middle East

The Middle East recorded an increase in the EII in Q3 2017, to 49.3, reversing the recent downward trend. Nevertheless, the region remains in contractionary territory. Sustained low oil prices continue to weigh on economies across the region. Moreover, the ongoing political crisis between Qatar and the rest of the GCC remains precarious, creating instability and undermining growth prospects for the region.

Figure 10: Economic Impact Index - Middle East

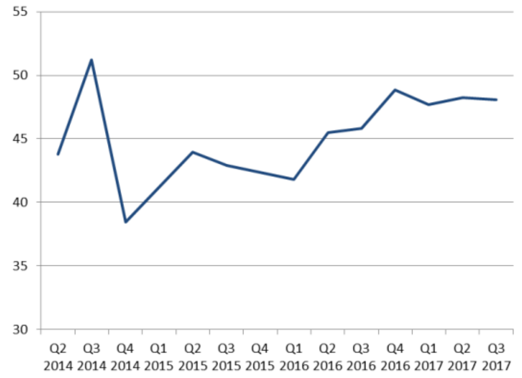


Source: Timetric

3.7. Africa

The EII has dipped slightly, dropping to 48.0 in Q3 2017. Nigeria, the largest economy by GDP in Africa, is beginning to show signs of economic recovery following the impact of low oil prices; however security concerns due to militant attacks are weighing on economic prospects. The South African economy continues to falter with political instability leading to credit ratings downgrades. Kenya continues to struggle with high inflation, while reduced oil revenues in Angola continues to impact on the government revenue.

Figure 11: Economic Impact Index - Africa

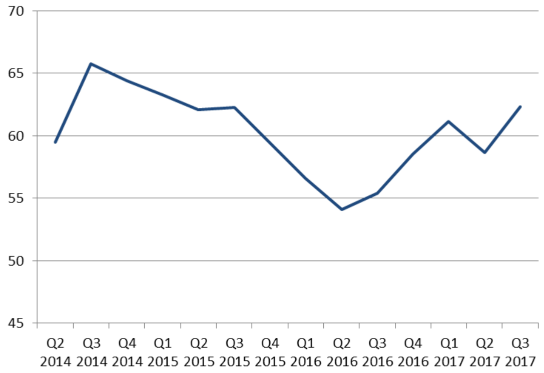


Source: Timetric

3.8. Asia

The EII for Asia increased to 62.3 in Q3 2017, the highest score the region since Q1 2015. The score for Asia remains the highest EII among all eight regions, demonstrating a high level of economic confidence among respondents. China's economy exceeded expectations with strong GDP growth over the year to date and is highly stable in comparison to other major economies in the region. India's economy is benefiting from its diverse export base and this continues to drive high level GDP growth.

Figure 12: Economic Impact Index - Asia

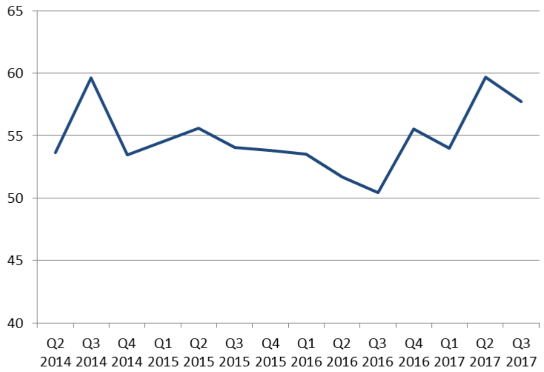


Source: Timetric

3.9. Australasia

The EII for Australasia contracted slightly in Q3 2017, dropping to 57.7, down from the multi-year high of 59.7 recorded in Q2 2017. Australia's economy is currently expanding at a slow pace; a recovery in commodity markets should, however, help the economic recovery. New Zealand's economy continues to grow and has benefited from a recovery in the dairy sector and a rebound in construction following a brief downturn.

Figure 13: Economic Impact Index - Australasia



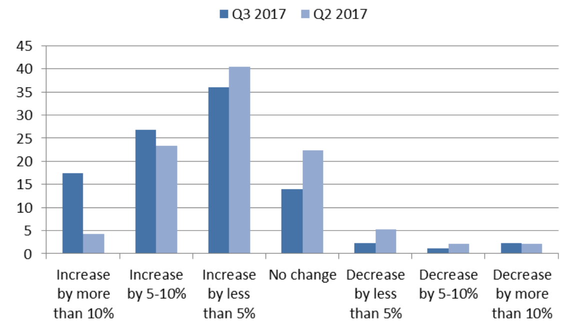
Source: Timetric

4. Leading Indicators

4.1. Sales

The majority of respondents remained optimistic regarding their sales prospects over the next six months. This increase was led by respondents expecting increases of more than 10% over this period, combined with a modest uptick in respondents expecting an increase of 5-10%. Respondents expecting an increase in sales of less than 5% dropped to 36.0%, down from 40.4%. Expectations of an increase of 5-10% increased slightly to 26.7%, from 23.4%. The percentage of respondents anticipating an increase of more than 10% increased sharply to 17.4%, up from 4.3%, while the percentage of respondents expecting no change declined to 14.0%, from 22.3%.

Figure 14: Sales Prospects



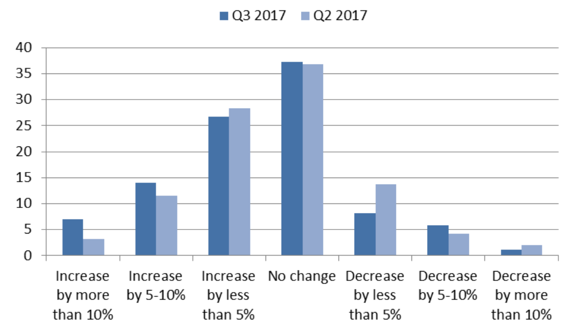
Source: Timetric

Note: % of respondents, and how they expect sales to change in the next six months.

4.2. Headcount

Data from the planned headcount change analysis suggests that respondents generally anticipate staff headcount to improve somewhat over the next six months. There was a higher level of stability expected in Q3 2017 than in the previous quarter, with 37.2% expecting no change in headcount, compared to 36.8% in Q2 2017. There was also an increase in the number of respondents expecting large headcount increases: expectations of an increase of 5-10% registered 14.0%, up from 11.6%; and expectations of an increase of more than 10% registered 7.0% of respondents, up from 3.2%. Despite the general expectations for no change or increases in headcount, there was an increase in the number of respondents expecting a decrease of 5-10%, with 5.8%, up from 4.2%. Nevertheless, there was a drop in the number of respondents expecting a reduction in headcount by less than 5%, with 8.1%.

Figure 15: Planned Headcount Change



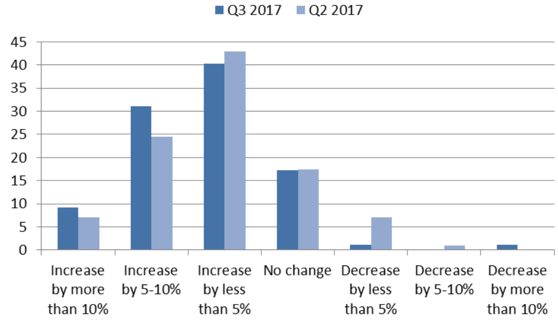
Source: Timetric

Note: % of respondents, and how they expect headcount to change in the next six months.

4.3. Raw Materials Prices

Raw materials prices are expected to rise over the next six months, with 80.5% of respondents predicting an increase. However, there was a slight fall in the number of respondents expecting an increase of less than 5%, with 40.2% in Q3 2017 from 42.9%. After a number of years of declining prices for key commodities, including metals, global commodities markets are starting to rebound and with that there will be renewed upwards pressure on prices. In view of the sharp declines in recent years, there is scope for a pronounced rebound in the coming quarters.

Figure 16: Raw Materials Prices Change



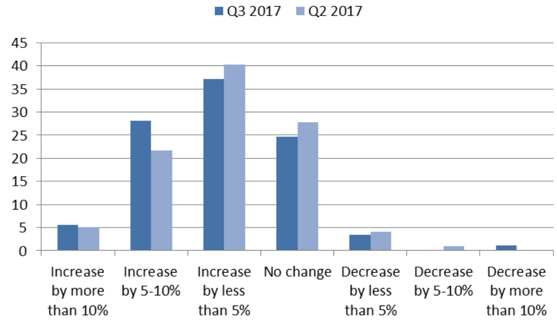
Source: Timetric

Note: % of respondents, and how they expect raw materials prices to change in the next six months

4.4. Energy Prices

There continues to be a widespread expectation of rising energy prices, with 71% of respondents expecting an upturn over the next six months. Moreover, more respondents are now expecting a relatively large increase, with 28.1% of respondents expecting an increase of 5-10%, up from 21.6%. The recent trend of modest rises in crude oil prices supports these expectations. Nevertheless, despite the slight recovery in prices in recent months the oil supply has not fallen drastically, in part due to the increased use of fracking.

Figure 17: Energy Prices Change



Source: Timetric

Note: % of respondents, and how they expect energy prices to change in the next six months

5. Appendix

5.1. About the Survey

This report is the result of quarterly surveys of respondents drawn from Timetric's panel of industry executives, covering thousands of business professionals worldwide who rely on Timetric's flagship media brands in their respective markets. This business community enables Timetric to access knowledgeable and informed industry executives and to gauge their opinions and expectations regarding the global construction industry.

The Construction Confidence Survey features three main components:

Current Confidence Index (CCI)

The CCI is the main barometer of confidence in the global construction industry with regards to growth prospects over the short-term horizon. It is centred on two key questions: "How optimistic are you about your industry's growth prospects over the next six months?" and "How optimistic are you about your company's growth prospects over the next six months?". Fixed responses range from "very optimistic" to "very pessimistic", with the number of responses weighted and set to a scale of 0-100.

CCI scores above 50 suggest that respondents are optimistic, and the higher the score, the greater the optimism. Scores below 50 suggest that respondents are pessimistic, and the lower the score, the greater the pessimism. A score of 50 suggests that respondents are neither optimistic nor pessimistic. The overall CII is the average of the two sub-components: CII-Industry and CII-Company.

Expected Confidence Index (ECI)

The ECI provides an indication of how industry confidence will evolve over the coming six months. It is centred on the question: "How do you think general business and customer confidence in your industry will change over the next six months compared to what it is now?". Fixed responses range from "very positive change" to "very negative change", with the number of responses weighted and set to a scale of 0-100.

ECI scores above 50 suggest that respondents expect confidence levels to rise in the coming six months, and the higher the score, the greater the expected improvement in confidence. Scores below 50 suggest that respondents expect confidence levels to fall in the coming six months, and the lower the score, the greater the expected decline in confidence. A score of 50 suggests that respondents expect there to be no change in confidence levels.

Economic Impact Index (EII)

The Economic Impact Index (EII) provides a sense of how respondents perceive the current state of the economy to be impacting the construction industry. The EII is centred on one key question: "How would you best describe the current state of the economy based on how it is impacting your industry?". There are EII scores for the global economy and eight major regions. Fixed responses range from "very favorable" to "very unfavorable", with the number of responses weighted and transposed to a scale of 0-100.

EII scores above 50 suggest that respondents perceive the current state of the economy to be having a favorable impact on the construction industry, and the higher the score, the greater the perceived favorable impact. Scores below 50 suggest that respondents perceive the current state of the economy to be having an unfavorable impact on the construction industry, and the lower the score, the greater the perceived unfavorable impact. A score of 50 suggests that respondents perceive the economy to be stable and having neither a favorable nor unfavorable impact on the industry.

The survey also features a number of Leading Indicators. For each of these, respondents are asked to provide an indication of change, with fixed responses ranging from an "increase by more than 10%" to a "decrease by more than 10%". The results are shown in a raw form giving the percentage of respondents replying in each range.

Sales

The survey questions respondents on their expectations of how their sales performance will change over the coming six months.

Headcount

The survey questions respondents on their plans to change their headcount within the coming six months.

Supplier Prices

The survey questions respondents on their expectations of how supplier prices will change in the key areas of raw materials and energy.

5.2. Disclaimer

The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that Timetric delivers are based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such, Timetric can accept no liability whatsoever for actions taken based on any information that may subsequently prove to be incorrect. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of Timetric.