Compass International – Global Construction Newsletter: April to May 2016

The global construction industry going into the 2nd Q of 2016 is definitively showing clear indications of improving. Nevertheless, while the outlook for Global Construction mostly encouraging, it's also a mixed bag. The construction sectors in India, Vietnam, Indonesia, China and the USA are doing reasonably well. Some market such as Brazil, Russia and some Western European countries are not performing that well. The global construction sector continues to grow, but then again so do the worries about the remainder of 2016 and beyond. The recent tragic terrorist attack in Brussels on March 20th could impact some European economies that could trickle down into their construction sectors. The BRICS (Brazil, Russia, India, China & South Africa) construction sectors are not doing that well. Brazil's government is considered by many to be inept, many US and European manufacturing companies have recently cancelled or delayed projects in some of the BRICS. Russia has many issues to face: # 1 is the price of oil, and lower oil prices continue to slow down the Russian economy and its construction sector. Russia's economy is very much dependent on oil and both economies are forecast to stay flat or weaken in 2016. India will be the best the performing BRICS; its' economy is forecast to grow by more than 7% in 2016. China is slowing down rather rapidly, look for the slowdown to continue in 2016. Inadequate numbers of skilled workers will persist in holding South Africa's economy back in 2016. The global construction prospects for the rest of 2016 are for the most part promising, from the more than eight years of economic difficulty. The Global Financial Downturn has seen prolonged periods of economic stagnation in a number of countries that include Greece, Spain, Ireland, Portugal, Russia and a number of Eastern European countries.

As we move into 2016, it would seem that the global economy and the associated construction sectors are recapturing some energy again. The Global Construction market is projected to expand over the next five years to a value of $9 to $11 trillion. This growth will be driven by population expansion, the movement of people from rural areas to cities and towns, lower cost labor / trade opportunities and the development of basic infrastructure needs (roads, schools, hospitals, airports & the like). It is estimated that between $250 billion and $500 billion of Oil, Gas and Pipeline EPC / EP projects around the world have been cancelled. The global oil market might be moving on the way to some stability, some experts are projecting oil to be in the $45 to $55 a barrel by the end of 2016. Counties that will see best growth in there construction sectors in 2016 will be India, China, Indonesia, Malaysia and the Philippines. Countries that will see no growth in their construction sectors in 2016 will be Venezuela, Russia, Argentina, South Africa and Brazil.

Regional GDP Growth in 2016:

Region	Forecast of 2016 GDP Growth
North American	1.7% to 2.7%
South America	1.1% to 2.3%
Western Europe	1.2% to 1.7%
Eastern Europe	0.9% to 1.3%
Middle East	2.8% to 3.3%
Asia / Australia & New Zealand	4.1% to 5.0%
Sub-Sahara Africa	3.0% to 3.6%

Current political and world issues that could impact the above somewhat upbeat comments are:

1. Nobody knows what a barrel oil of oil will cost in the next six months, will it be $40 or $60 a barrel? Some industry experts are forecasting an oil glut for the next 5 years as half a million barrels a day of Iranian oil is allowed to enter the marketplace, then again oil prices have been moving upwards again in the last 60 days, it's fair to say that no one knows where oil prices will be in 3 to 6 months.
2. The huge migration of refuges / asylum seekers from Syria, Iraq, Afghanistan & Africa, thought to number anywhere from 2 to 5 million people (and possibly more) that are currently or planning on entering Turkey and Greece and moving north to Germany, Austria and Sweden - the cost of providing

housing, education and integration into the country that these individuals eventually reside could turn into a huge economic challenge / burden to the European Union.
3. The slowing down of the Chinese Economy and construction sector.
4. The ongoing Global Terrorist problems specific to ISIS (i.e. Brussels on 3/20) & Al Qaeda that appears to be spreading in Europe and to some African countries.

If some of these issues can be solved or put to rest then the global construction sector has a decent chance to grow and prosper in the next two to five years particularly in some of the 2nd and 3rd world developing economies of South East Asia, Africa & South America. In 2016 World GDP growth is forecast to be in the 2.5% to 3.3% range.

Things we will see in 2nd Half of 2016:

USA & CANADA

In the USA, material costs have for the last year or so remained flat with perhaps structural steel being the one commodity that has bucked the trend. Prices of structural steel have fallen between 5% and 10% in the last 3 to 6 months. Construction spending for the 1st Half of 2016 is trending in the 3.5% to 5.5% over 2015 levels. This growth is attributed to new apartments and single family housing, infrastructure, transportation, schools, water supply / disposal & commercial construction (offices, big box stores, shopping malls, hotels and manufacturing factories).

The overall USA GDP growth forecast for 2016 is between 2.1% to 2.5%, reasonable but not that great. The US commercial construction sector (Offices, Hotels, Single Family Homes etc.) will experience a steady improvement in the 1st Half of 2016. Consumer confidence is improving somewhat, however concerns still remain from the world political uncertainties. Home builders report a 3% to 5% increase in new home sales from 2015 levels, still slow compared to the halcyon 2004 to 2007 periods.

General construction facility costs in the USA are forecast to increase on average between 1.9% and 2.2% in 2016. Construction labor costs in the USA are estimated to increase on average between 2.1% and 2.4% in 2016. Construction bulk material costs in the USA are forecast to increase on average between 1.5% and 2.3% in 2016. In the USA, 2016 should be a good year construction wise for Hotels, Offices, Housing and Theme Park / Stadium type facilities; this growth is forecast to be in the 10% to 15% over 2015 levels. Power, Transportation, Manufacturing and Education related construction will experience decent growth in 2016, predicted to be in the 4% to 6% over 2015 levels. Oil, Gas and Pipeline construction will experience a big falloff in 2016, forecast to be in the -15 to -25% over 2015 levels.

Pipe fabrication costs are forecast to increase by 0.7% to 1.5% over 2015 pricing levels due to the significant ongoing work on multibillion dollar CAPEX projects currently being executed on the US Gulf Coast. Drywall, Plywood, framing timber & drywall costs are increasing year to year by 4.5% to 5.5%, due to a somewhat improvement in the US "new" housing market. The US Congress is creating a big miscalculation with not funding new roads, bridges and the necessary repairs to highways, airports, bridges, rail transportation and other vital infrastructure across the country. The US overall unemployment rate in the 1st Half of 2016 is forecast to be in the in the 4.9% to 5.1% range. In 2016, the construction sector is forecast to employ around 15 to 17 million workers, currently unemployment in the USA construction sector is in the 6.2% to 6.9% range, a huge improvement from a year or two back. The US Gulf Coast region is currently experiencing a skilled worker shortage (Welders, Pipefitters & Electricians) due to the 6 to 10 multibillion dollar CAPEX projects currently being executed, some of these projects are employing between 3,000 and 5,000 construction workers. The manpower needs for these projects will peak in 2017 / 2018. US Natural Gas / Shale Oil / Ethane / LNG exports are projected to grow appreciably over the next decade or two as US production increases. Europe is now importing US Shale Gas.

Canada is predicted to see GDP growth at between 1.5% and 2% in 2016; lower oil revenues have hindered Oil, Gas and Pipeline construction prospects. Construction costs labor and materials are forecast to stay relatively flat, in the order of 1% to 2% for the next 3 to six months. Canada's population is growing; this growth will have a positive impact on New Home / Apartments, Health Care, Hotels, Retail and Office construction - overall Canadian constriction is primed to have a decent 2016, forecast to be in the 2.5% to 3.5% over 2015 levels.

The Oil and Gas construction sector in both the USA and Canada has suffered a ruthless downsizing and layoffs as Oil began its steep drop in early 2015. Oil E&P & EPC companies have reduced the staffing levels by more than 150,000 workers. CAPEX budgets for 2016 have been cut by as much as 50% to 75% over 2015 levels. The oil patch in Alberta, Canada has experienced a huge slump; Oil prices need to be in the $65 to $75 a barrel to make the Oil from this region of Canada cost-effective. Then again, oil prices have been moving upwards again in the last 60 days, it's fair to say that no one knows were oil prices will be in 3 to 9 months.

EUROPE

In Germany, the largest economy in the Euro Zone, slow or no growth appears to be on the cards for the 1st Half of 2016, the issue of resettlement of the 1.5+ million refugees from the Middle East and North Africa is still to be dealt with. France continues to experience sluggish growth in its construction sector, however there are a number of major infrastructure / transportation projects in the pipeline. Other European economies remain slow-moving, low growth and high unemployment remains in effect in Portugal, Poland, Greece, Spain, Ireland & Italy. Construction costs in the UK are moving marginally upwards again. Construction activity in the UK has experienced a positive uptick in the last three to six months; look for this to continue for the rest of 2016. Unions in the UK representing close to half a million construction workers are seeking increases in hourly rates of more than 4%, if this is agreed, look for inflation to start rising significantly in the 2nd half of 2016. The area surrounding London is very active construction-wise, other parts of the UK are less active. The uncertainty in the Euro Zone (28 countries) continues to squeeze construction spending in most of the Western & Eastern European construction sectors. The overall Euro GDP growth forecast for 2016 is between 1.1% and 1.5%. The European construction sector will continue to face challenges in the 1st and 2nd half of 2016; the problems surrounding the Ukraine and Russia territory tussle, the recent terrorist attacks in Brussels and Paris, the huge cost of the re-settlement of a million refugees and possibly more on their way from the Middle East & Africa will likely thwart construction spending for Mainland & Eastern Europe for 2016. The Euro to US dollar exchange rate is now close to parity ($1.11 to the Euro on March 28th); how this will impact the European construction market is still to be determined for the 1st and 2nd Half of 2016.

ASIA

China and other Asian emerging construction markets are starting to slow down compared to a year or two back; construction costs are moving at restrained rates, this is forecast to be the case for the next six months in most of Asia. In the last decade, Chinese EPC companies have improved their share of the global EPC market from approximately 6% to 17% to 18% in 2016. Look for this percentage to grow in 2017 and the coming years as Chinese EPC firms aggressively chase international construction work especially in Africa, Asia and North and South America. China's domestic market is forecast to see 6.2% to 6.5% GDP growth in 2016 (if official published figures are to be believed), down significantly from a year or two ago when it was between 7% and 8.5%. China's economy is not about to crash, a lot of future investment i.e. construction work will be focused on the China's western regions and into some of the smaller cities, such as Nanchong, Yuxi and Guilan. Economic confidence has been compromised though with the huge stock market drops and rises in the last six months. The Chinese private property market is still overvalued by at least 25% to 35% according to industry commentators; this has impacted the spending habits of the Chinese consumer and will have a knock-on effect for the Chinese construction sector in 2016. China is undergoing a significant construction slowdown as we move into the 2nd half of 2016 and beyond, bulk & engineered material prices are rising very modestly, 1% to 2% per year. Labor costs are a different matter, wage rates for Construction Professionals and Skilled & Unskilled Workers are increasing between 5% & 10% per year in some of the major coastal cities. Chinese construction companies are vigorously moving forward with the "Silk Road" program, this is a program that encompasses building major pipelines, bridges, ports, roads & energy projects in South America, Asia & Africa; initial estimates that this 5 to 10 year plan could generate EPC opportunities of more than $250 billion.

Other Asian construction markets are forecast to show progress in the 1st and 2nd half of 2016. India will lead the "Asia Tigers" with 7.1% to 7.4%% growth from 2015 levels. India's Infrastructure accounts for between

50% and 60% of India's construction sector, this will possibly increase due to the Indian Governments recent proclamation to invest and improve highways, railways and other forms of transport. Indonesia, Vietnam, Singapore & South Korea are all expected to see decent growth in the 4% to 6.5% range for the rest of 2016. China is still considered the # 1 growth market followed by India the # 2 potential growth market, with Laos, Japan, Vietnam, Singapore and Indonesia all exhibiting decent construction related growth potential in 2016. Chinese and Indian Engineering and Construction worker wage rates are forecast to continue to climb between 5% and 10% a year in 2016. Japan's construction market is seeing some signs of growth. Chinese and South Korean EPC firms continue to aggressively market and successfully complete large EPC projects around the world, pushing out or making life more difficult for the once "dominant" US and European EPC firms.

AFRICA

Business confidence is considered to be at a near all-time low in South Africa, one of the major countries of Africa. South Africa's President Jacob Zuma has laid out plans for $450 billion 15 year spending plan aimed at new roads, bridges, ports, telecommunications and power facilities. Not enough skilled workers will persist in holding back South Africa's economy and construction sector in 2016. Oil prices have dropped dramatically as of the end of March 2016 to between $35 and $40 a barrel; this does not bode well for Oil & Gas related EPC projects in Nigeria, Uganda, Cameroon, Equatorial Guinea and Ghana. Mineral prices have fallen sharply in the last 18 months; this will impact future mining CAPEX projects in Angola, Liberia, Nigeria, Cameroon, Equatorial Guinea and Ghana. A number of projects have been cancelled in the last (3 to 6) months. Libya is still striving to get back to normal after many years of internal unrest and instability.

RUSSIA

USA and European sanctions have seriously impacted the Russia construction sector in 2016. Construction spending in Russia is down appreciably, unemployment in the construction industry is somewhere between 15% and 20%, up significantly in the last year since the annexation of the Crimea and the incursions into Ukraine. Dwindling oil revenues, trade sanctions from the EU and the USA over the Ukraine situation, soaring inflation and the cost of supporting Bashar al-Assad in Syria will seriously impact the Russian economy in 2016. Construction inflation in 2016 is forecast to be in the 9.5% to 13% range. Russia's stepped up involvement in Syria and its bombing of ISIS after the recent loss of a Russian airliner over Egypt still has to play out, some Western countries are changing their views on Russia, hoping that Russia will focus on destroying ISIS. Strains between the West and Russia will continue. There are a lot of questions being asked about the future course of Russian intentions; is Russia viewing the current "uncertainty "in the West as an opportunity to reclaim or influence previous Soviet era regions? The Russian construction market is forecast to experience negative growth in the oil and gas sector and minimal to modest growth in the commercial / housing construction sector in the 1st and 2nd half of 2016. Construction work for 2018 World Cup continues.

SOUTH AMERICA

South America continues to find 2016 a difficult year; especially Brazil, Argentina and Venezuela that are all in recession. The other major countries, i.e. Chile, Mexico, Colombia, Peru and the Central American nations will see 2.5% to 3.3% GDP growth in 2016. The recent expansion of the Panama Canal will be a big plus for South American economies. Brazil continues to "buck the trend" and is currently experiencing a slowdown in its' construction sector. Unemployment in the Brazilian construction sector is in the 10% to 15% which is historically very high for Brazil. Oil prices have fallen significantly in the last six months; this is discouraging news for 2016 / 2017 CAPEX spending in Mexico, Colombia, Peru, Venezuela and Brazil. The South American construction / Infrastructure / Commercial Construction markets will experience respectable growth for the 1st and 2nd half of 2016; Commercial and office related type construction is on the upswing throughout South America. Shopping mall(s), apartments, warehouses, water supply / disposal, office developments, housing and light manufacturing facilities have and will continue to be built in major and mid-sized cities in Argentina, Chile, Central America (Panama, El Salvador, Guatemala and Nicaragua), Colombia and Mexico; look for this trend to continue in 2016.

MIDDLE EAST

Five years on since the Arab Spring “awakening”, there are two different realities coming out of this region, some Middle East / North African countries (such as Egypt, Libya, Syria, Jordan and Algeria) continue to endure political and economic stagnation. Other countries such as Bahrain, Kuwait, Oman, Qatar and the UAE are experiencing growth and prosperity. The later mentioned Middle East countries will continue to experience reasonable construction growth in the range of 3% to 4.5% for 2016 & 2017. Most of this growth will be fueled by energy / infrastructure projects. Lower oil prices have unquestionably slowed down the Gulf Cooperation Council (GCC) countries economic growth, i.e. Kuwait, Bahrain, Oman, Qatar, Saudi Arabia, and the UAE economies, including of course construction. Activity is down perhaps 5% to 10% from 2 to 3 years ago, but the outlook for construction work still remains good in the (GCC).
There are plenty of non-oil related construction projects and opportunities that are still to be had. In Saudi Arabia there is new economic financial / trade centers, metro systems, high rise offices, airports; hospitals and sport stadiums are all going forward with construction plans. In Bahrain, Kuwait and Oman there are plenty of high rise offices, airports; hospitals, schools, rail links, electrical and water utility upgrades / infrastructure projects in the pipeline. In the UAE there is new railway / metro systems, a nuclear power plant, large shopping centers, hotels, high rise offices, the 2020 Expo Trade Center, airport expansions, hospitals and sport stadiums that are all moving ahead with construction. Qatar has no lack of construction work on high rise offices, airports, apartments, hospitals and sport stadiums. In general, the (GCC) economies are forecast to grow by 3.5% to 5% in 2016 and 2017. Egypt, Libya, Syria, Jordan, Tunisia and Algeria will continue to see zero growth in their construction sectors. The Kingdom of Saudi Arabia (KSA) is locked in a winner take all price war (KSA is currently pumping in access of 10 million barrels of oil per day) with USA Shale Oil, Canadian Tar Sands Oil, Russia and some other OPEC oil producers. Oil prices have started to trend upwards in the last month or two, oil is trading at $40 a barrel as of 3/29, it’s hard to forecast where it will be in 6 to 9 months.

AUSTRALIA

Some major energy related CAPEX projects valued between A$ 20 and A$ 30 billion have been cancelled in the last couple of weeks. Skilled labor availability has picked up substantially, salaries and hourly wage rates are forecast to remain stable or moderate slightly for the remainder of 2016. Unemployment in the construction sector is expected to increase for the remainder of 2016. Low commodity (oil, gas and minerals) prices will continue to impair the Australian economy and construction sector. Australian construction inflation is forecast to be in the 2.6% to 2.8% range for 2016. The construction market in Australia will remain stable for the 1st and 2nd half of 2016. Prior to the last 24 months mining, oil and gas construction work had been going great guns in the last five years, sending construction labor and bulk material prices up significantly, this and the high Australian dollar exchange rates made Australian construction rates amongst the top five most expensive worldwide rates. This situation changed in mid to late 2014, as demand for minerals was significantly reduced from China and India. The Australian commercial / housing construction market is forecast to expand by 2.5% to 3.5% over 2015 levels in 2016. Oil selling at $30 to $40 a barrel will mean some Oil & Gas CAPEX projects will be cancelled or shelved.

Country	2016 % GDP Growth	2016 Inflation %	2016 Unemployment %	Comments on Construction 2016 Future Spending Activity
USA	**2.3**	**1.3**	**5.1**	**Construction slowly improving. Oil & Gas work still moving forward in US Gulf States; however $35 - $40 a barrel oil prices have and will reduce future Oil & Gas CAPEX spending for the rest of 2016.**
CANADA	**1.7**	**1.1**	**7.3**	**Construction (hotels, offices, shopping malls,**

				institutional work and housing) is steadily improving in all Canadian Provinces. Oil & Gas CAPEX work has slowed significantly with oil prices in the $35 - $40 a barrel range. The Canadian economy is now in recession. Canada has a new Liberal Prime Minister; Mr. Justin Trudeau; no dramatic improvement in the oil and gas construction sector is expected in the next 6 months.
BRAZIL	0.1	8.3	7.7	Lots of labor & economic problems that will impact construction activity, Brazil is now officially in recession.
GREAT BRITAIN	1.9	0.6	5.2	Starting to see slow growth (commercial, institutional, housing work) is slowly improving, Construction activity in and around London is robust, other regions are much slower. Low oil prices have dramatically negatively impacted North Sea CAPEX spending.
GERMANY	1.4	0.6	6.3	Slowing down, Russia V Ukraine is a problem. Germany will accept at least 1 million + refugees from predominantly Middle East countries, the question is what will this cost and will it impact the Germany economy in 2016 and beyond.
FRANCE	1.3	0.5	10.3	Construction activity remains very slow; however there are signs of activity in the infrastructure and transportation sectors. The recent terrorist activities in Paris are not expected to seriously impact the French construction sector.
RUSSIA	0.1	9 to 13	12 to 17	Problems with Ukraine & Oil prices continue to stymie external CAPEX investment, $25 - $35 oil does not help the Russian Construction market. The West may need to bring Russia in from the

				cold with the recent ISIS actions in Egypt and France.
JAPAN	1.2	2.2	3.4	Construction industry continues to see slow but steady growth. Inflation is moving upwards.
CHINA	6.2	2.1	4.2	The Chinese economy is showing significant signs of slowing down; this has and will impact future construction activity. Add to this the devaluation of the Yuan, the major drop in the stock market and the property “boom” bubble that still is expected to play out, points to possible problems ahead for the Chinese construction market.
INDIA	7.2	5.3	5.4	The Indian economy is performing very well and exhibiting signs of steady and sustained growth, trade links with US seem to be improving, going into the 2nd half of 2016. India is performing better than its’ Asian competitor: China; look for the Indian construction sector to experience steady growth in 2016 and 2017. Highways, ports, airports, low cost housing and power plants are pushing the Indian economy forward.

2nd Half 2016 Prices at a Glance:

Forecast Cost of a barrel of Crude Oil:

$30 - $40

Forecast of Euro / US $ Exchange Rate:

1.05 – 1.12

Forecast Copper per pound:

$2.05 - $2.45

US Construction Material Inflation (Basket of 10 construction materials):

1.6% – 2.2%