Building industry: the panic has finished, not the problems though

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“This year we are not expecting a growth of the construction industry yet, a slight improvement may not occur before 2011. This year the demand of the market will still be limited, the companies will be under strong pressure of the competition. If they want to increase their market share in a sustainable and profitable manner, the management should continue to increase the efficiency of the processes, to manage risks consistently and to carefully assess their investment strategies,” Andreas Höfinghoff from KPMG Czech Republic comments on the research results.

Big companies = big worries

Building companies are expecting a decline in 2010, however, the strongly negative moods from July 2009 (when companies´ representatives predicted a fall of the sector for 2009 by up to 11 %) are fading. The real turn of the situation may occur in 2011, in opinions of the Czech builders.

This year is however a crucial. It is remarkable that large construction companies are the most pessimistic. Of them, 83 % respondents expect a fall (the mean average of the samples shows a decrease of up to 6 %) in comparison to 51 % of the approached managers in medium-sized and small companies. A sector-orientation division shows representatives of engineering construction to be the most optimistic group: they currently forecast a drop in the construction industry by mere 1,7 % in 2010.

The research shows certain positive shifts in the field of “self-confidence” of the Czech builders, i.e. appraisal of their own outlooks. The construction companies were again asked about the expected development of their market share in 2010, in other words whether they expect to be better off than their competitors. In comparison to the results from July 2009 (45 % respondents forecasted improvement of their position for 2009) and the result of the September 2009 results (a growth to 58 % of respondents). A further slight increase in the share of companies which expect improvement of their market position occured, currently this accounts for 62 % respondents. Again, the most pessimistic in this regard was the segment of large construction companies.

Number of commission growing (slowly)

The research results also show a visible decrease in the capacity utilization of construction companies. The lowest utilization is currently experienced by the companies oriented at structural engineering (only 74 %). The segment of medium/small companies shows a similar utilization (75 %) whereas the best situation is in large companies which state 82 % utilization of their capacities.

The average number of months for which the companies have contracted commissions remains at 6 months; 8,5 months at larger companies (a fall from 9,6 months in September 2009). The structural engineering companies have work for 5,3 months whereas engineering construction companies have significantly better outlooks (8,2 months).

Nevertheless, around 45 % participants in the poll state that they have fewer commissions than a year ago. This is a slight improvement of the situation because this number was at 56 % of respondents in September and in July 2009.

Inveterate problems

The real symptom of the sector crisis is insufficient demand, a restriction of public resources commissions is visible in companies oriented at engineering construction as well as in large companies.

Other problems, faced by the management of the Czech construction companies have a contrary, chronic character. In the leading positions they include the bureaucracy, harsh competition and financing problems. In comparison with the past, the Czech builders are not complaining of weather nor of high material prices or lack of qualified labour.

This analysis of the state and development of the Czech construction industry for January 2010 is based on telephone calls with the management of 100 construction companies. The interviews took place at the beginning of January 2010. Full wording of the survey results can be obtained at www.CEEConstruction.Eu.

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