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Navigating the Storm: charting a path to recovery?

How the global construction industry is rebuilding and designing the future

Almost two-third, or 64 percent of respondents to KPMG's 2009 *Global Construction Survey* expect to either increase or maintain profit levels by mid 2010.

After several boom years for the global construction industry, many expected bust, especially in these turbulent economic times. However, *KPMG's Global Construction Survey 2009* reveals there is much to be optimistic about, despite falling demand and commercial and residential building work inevitably suffering as funding dries up in the wake of the financial crisis.

Geno Armstrong, International Sector Leader of KPMG's Engineering & Construction practice comments, "There is a perception that the global financial crisis has devastated the construction industry. While it certainly has had significant impact on the way these companies do business, the survey found that they view these conditions as an opportunity to get leaner. When the recovery does finally arrive, these companies should be well-prepared to succeed."

Fifty three percent of global respondents stated that their backlog volume of jobs has gone up or stayed level in the past twelve months. The picture was similar with profits in the current order backlog with just 44 percent of global respondents claiming a decrease. Contractors in Europe, Middle East and Africa appear to have been hardest hit with 54 percent indicating their projected profit rates have declined.

The future for the industry promises huge government stimulus packages with the potential to reinvigorate the infrastructure market, but how much money will be made available and where it will find its way to is a matter of much debate in the boardrooms of engineering and construction companies around the globe.

Indeed, only 12 percent of global respondents believe that the proposed government stimulus packages will bring a significant increase in opportunities over the next 24 months. Although contractors in Asia Pacific had the most confidence in government packages with 82 percent expecting a moderate or significant increase in opportunities over the next 24 months, 43 percent of respondents from Europe, Middle East and Africa believe that such stimuli will have no demonstrable impact in that timeframe. In contrast Americas respondents tended towards the middle, with 73 percent expecting some impact by mid-2011.

There is again more optimism shown by the construction industry's ability to retain its talent in difficult times. Somewhat surprisingly given the global economic climate, 35 percent of global respondents have not reduced their workforce at all. In fact, very few contractors have even felt the need to cut workforce costs via salary reductions, reduced working hours, or unpaid sabbaticals, and, in a very bold move given the intensity of the global recession 28 percent of respondents have taken no action at all.

Given that KPMG's 2008 Global Construction Survey identified a talent shortage in the industry, it is not surprising that this year's respondents are showing great reluctance in shedding valued employees. Geno Armstrong adds that, "These companies are so conscious that this is a talent-

focused industry. When the recovery does come, E&C companies want to make sure that they have the right skills and experience ready for the opportunities available.”

This year’s KPMG Global Construction Survey shows that the recession, rather than forcing cutbacks as would be expected, has intensified contractors’ efforts to manage the risks associated with projects. What was once considered a weakness in the sector is now receiving continued attention.

Seventy-three percent of respondents of the survey say they have put even more effort in the last 12 months into risk management. The majority of respondents reported carrying out more in-depth analyses of performance risks on “mega projects” and devoting considerable time and resources to improving risk management, through investments in systems and more comprehensive assessment of cash flow, compliance and safety risks. Some are focusing on due diligence, checking the financial stability of clients.

When it comes to competing in a tougher marketplace, the majority of respondents see sustainability as a ‘must-have’ to satisfy clients and regulators. Although 56 percent reported that sustainability helps position their organisation as being innovative and environmentally aware, many feel it that this is merely a minimum requirement for inclusion on shortlists. Globally, only 28 percent believe that adding sustainability solutions will result in their being invited to bid on a broader range of projects; in the Americas, this figure is 56 percent.

Revealingly, when asked what dynamics of sustainability were most important to their customers, respondents cited a profitability/cost efficiency, energy efficiency and environmental impact. This suggests that the industry views sustainability more as an opportunity to achieve greater cost efficiency than merely as a collection of environmental benefits.

In looking at two specific financial reporting issues, more than 80 percent of survey respondents suggested that the transition to International Financial Reporting Standards (IFRS) has had or would have either positive or neutral impact for the industry. In stark contrast, the majority of respondents felt that proposed changes in revenue recognition would have a negative impact for the industry, feeling that the new standards would reduce understanding of their company’s results, degrade the ability to forecast revenues and profits or that the existing model accurately reflects the revenue recognition process.

Note to editors:

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