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Budapest, 18 December, 2009

Navigating the Storm: charting a path to recovery?

How the global construction industry is rebuilding and designing the future?

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. 64 percent of respondents to KPMG's 2009 Global Construction Survey expect to either increase or maintain profit levels by mid 2010 and 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.

Kohári Gábor Director of Real Estate, Leisure and Tourism Advisory at KPMG in Hungary 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."

"The building and construction industry in the Visegrad Group countries is facing turbulent times. The effect of the current economic crisis is visible in all four countries; however, the level of impact differs depending on the features of the industry in each of them. The key factor they are going to concentrate on in the coming 12 months is enhancing the effectiveness of their company operations, with the aim of overcoming these difficult times, and establishing as stable as possible foundations for future development" – says Kohári Gábor.

Kohári Gábor added: "In Hungary, the construction sector slightly decreased in the first half of 2009 due to some the earlier constructions which have finished. We expect that the value will be decreased more significantly from the second half of 2009 since new constructions have not started. There are still key constructions which are important and are planned to be finished on time due to its strategic role like MotoGP race road in Sávoly, metro 4; mostly those investments where the stake of the state is relevant."

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 around the globe.

There is 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.

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.

Note to Editor

About the survey

Navigating the Storm, published in November 2009, reflects the results of more than 100 interviews with senior leaders at Engineering & Construction companies in 30 countries worldwide. Company revenues ranged from less than US\$250 million to more than US\$5 billion, with a mix of operations from global through pan-regional to purely domestic.

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