

Positive sentiment in construction sector fades

- **Headline construction workloads series turns negative**
- **Public sector output still growing but more modestly**
- **Confidence remains positive, although less so than previously, particularly in the outlook for profit margins**

The Q2 2013 RICS China Construction Market Survey suggests the construction sector is losing momentum. Indeed, total workloads* at the headline level dipped into negative territory, with the net balance slipping from +41 to -4. More specifically, the public sector saw moderate though positive growth in workloads. Additionally, the infrastructure sector continued to grow, albeit at a much more modest pace than was the case in the first quarter. As part of the reform initiatives, the authorities have taken a more deliberate and cautious approach to strengthen the public investment decision process since the new administration took office in March. Reflecting this, the results are hardly surprising. Meanwhile, the reading for the key area of private housing shows a greater level of resilience which may be indicative of the challenge the government faces in reining in the property market. Although still positive, the private commercial net balance has eased, slipping to +8 from +44. Respondents in the private industrial category report that workloads deteriorated significantly, with the net balance weakening to -64 from -7, while energy, oil & gas workloads also dropped sharply into negative territory.

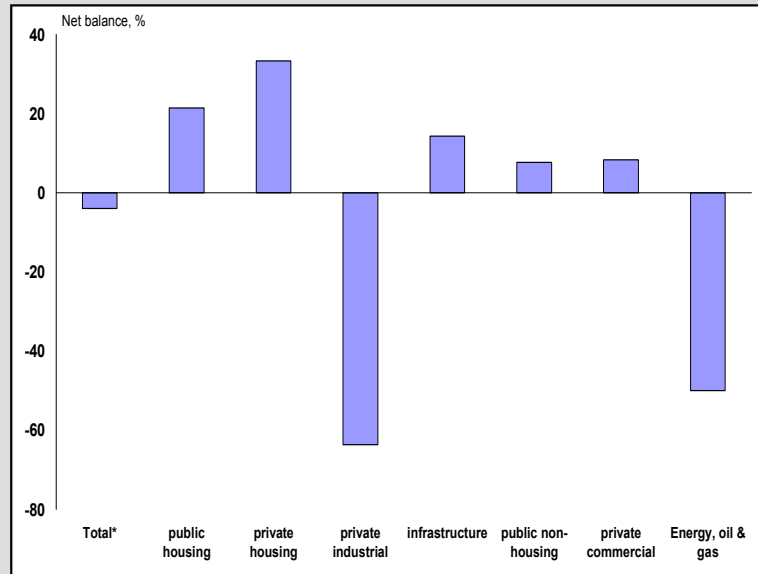
In terms of the outlook over the next twelve months, respondents have turned less optimistic with respect to output, employment and profit margins. Workloads and employment are still expected to increase, but at a slower pace than seen in Q1. Optimism has faded most in terms of the prospects for profit margins where the net balance now stands at just the neutral reading of zero. The average anticipated increase in building activity and employment over the next twelve months is put in the 2.5 to 5% range.

The survey suggests that a shortage of skilled labour and financial constraints were once again the top factors limiting building output. This was followed by competition (54%), insufficient demand (46%), and planning/regulation (40%). Survey respondents also indicate that skills shortages were visible across all areas (quantity surveyors, other construction professionals, bricklayers, plasterers, carpenters, and electricians).

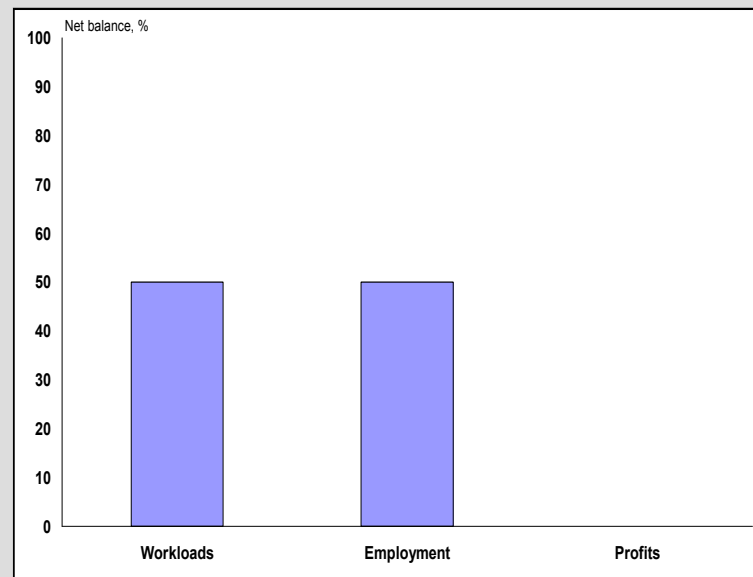
Finally, the results show that in response to the question on the prevalence of Building Information Modeling (BIM), around one in five of those completing the survey suggested that the use of BIM increased over the quarter. Of those that answered the question positively, around 11% of respondents suggest that this was the case in the areas of design and time management, while around 40% of respondents indicated that the greater use was in cost management.

*The headline net balance for total construction workloads is an unweighted average and the number is obtained by taking the average of all of the sectors (in net balance terms) covered in the survey.

Workloads - last 3 months



Expectations - 12 months ahead



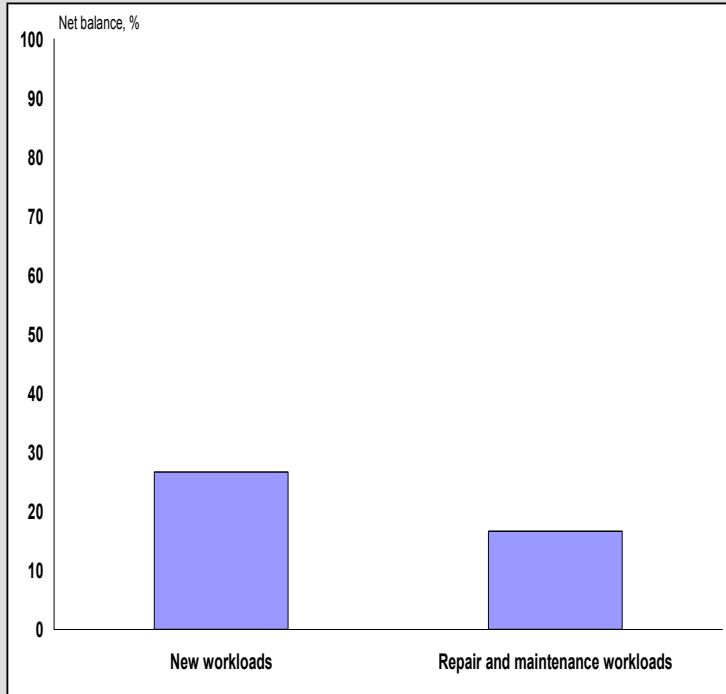
About:

The RICS China Construction Market Survey is a quarterly sentiment survey of respondents who operate in the construction market sector. See back page for further details.

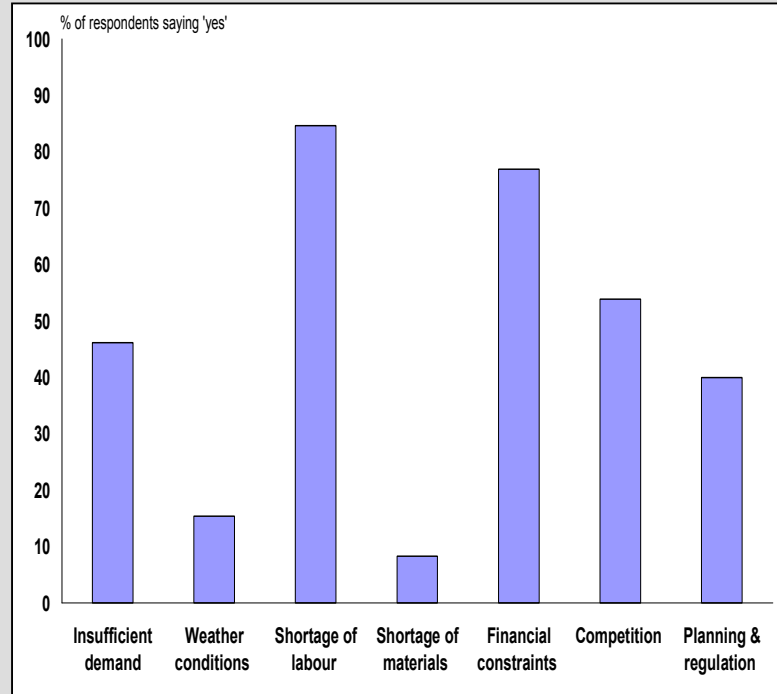
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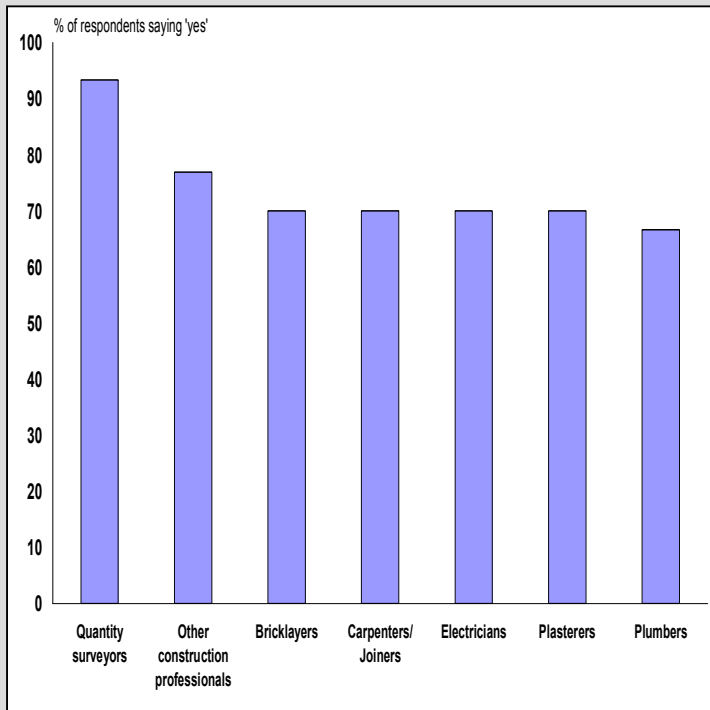
Workloads (New or R&M)



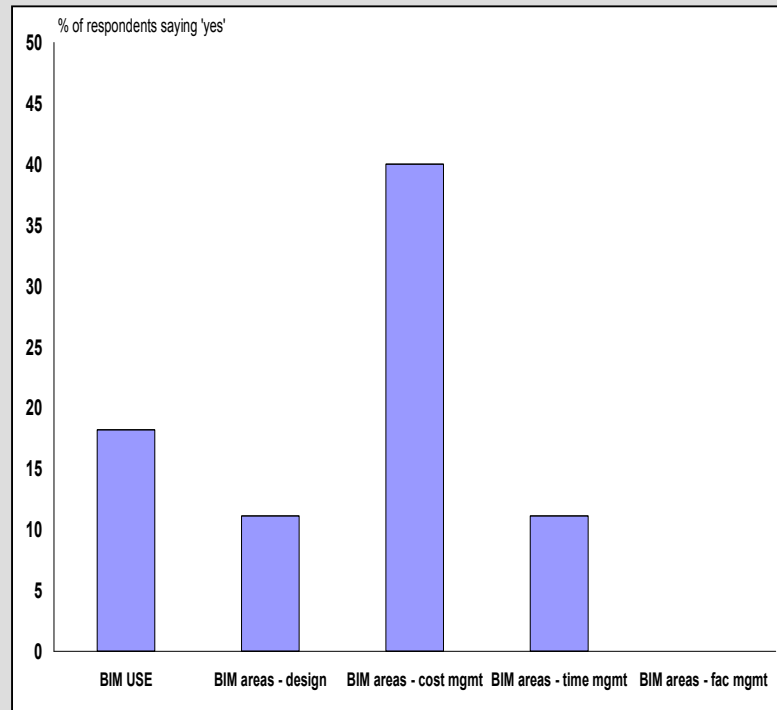
Factors limiting activity



Skills shortages



BIM - change over past 3 months



Notes to editors / Contacts

About:

- The **RICS China Construction Market Survey** is a quarterly sentiment survey of respondents who operate in the construction sector.

Questions asked:

1. How has the level of your company's workload in your area changed, comparing the **latest three months** with the previous three months? (up/ same/ down)
2. How has the level of new enquiries for projects changed from clients, comparing the **latest three months** with the previous three months? (up/ same/down)
3. How have workloads for new developments and repair and maintenance changed comparing the **latest three months** with the previous three months? (up/ same/ down)
4. Main factors currently limiting your building activity?
5. Has your company (or your contractors) experienced skills shortages in your area in the **latest three months**?
6. How have per unit input costs changed, comparing the **latest three months** with the previous three months? (up/ same/ down)
7. For a unit of output, has the price of finished buildings risen, fallen or remained unchanged, comparing the **latest three months** with the previous three months? (up/ same/ down)
8. Has the usage of BIM increased or decreased comparing the **latest three months** with the previous three months?
9. Has the requirement for sustainable solutions increased or decreased comparing the **latest three months** with the previous three months? How many branches do these relate to?
10. Over the **next twelve months**, what change do you predict in these three areas of your company/department's activity? (Workloads, employment, profit margins)

Net balance data:

- **Net balance = Proportion of surveyors reporting a rise in workloads minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%).**

- Net balance data is opinion based; it does not quantify actual changes in an underlying variable.
- Net balance data can range from -100 to +100.
- A positive net balance implies that more respondents are seeing increases than decreases (in the underlying variable), a negative net balance implies that more respondents are seeing decreases than increases and a zero net balance implies an equal number of respondents are seeing increases and decreases.
- Therefore, a -100 reading implies that no respondents are seeing increases (or no change), and a +100 reading implies that no respondents are seeing decreases (or no change).
- A change from +30 to +60 does not mean that the variable grew by 30% in one period and by 60% in the next period, but it does indicate that twice as many surveyors reported an increase compared to a decrease than in the previous period.
- Likewise, if we get a reading dropping from +90 to +5, this still means that more respondents are reporting increases than decreases overall, but the breadth of those reporting increases has fallen dramatically; meanwhile, a shift in the reading from -90 to -5 still means that more respondents are reporting decreases than increases overall, but the breadth of those reporting decreases has fallen dramatically.

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