

China's construction activity shows signs of improvement but not enough to dispel concerns

- **Headline workloads series turns positive**
- **Forward-looking indicators on workloads, employment and profit margins remain positive**
- **Financial constraints remain a key issue for the sector**

The Q2 2014 RICS China Construction Market Monitor underscores a fairly broad-based improvement in market sentiment. The headline national workloads balance showed a modest increase after falling in the first quarter. Thanks in large part to the cumulative impact of the targeted mini-stimulus measures implemented over the past several months, workloads for public housing, infrastructure and energy, oil and gas sectors appeared to gain some traction. Indeed, they were the important drivers of construction activity, with the net balances climbing firmly into positive territory.

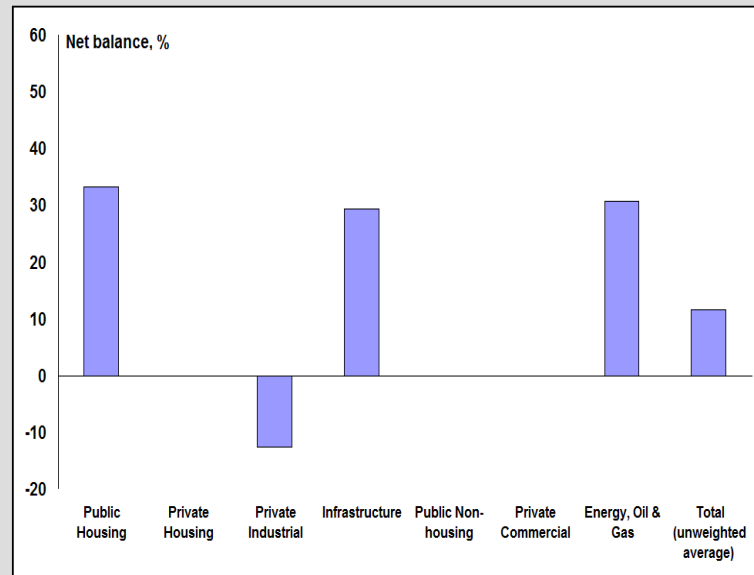
Meanwhile, workloads in the private housing, public non-housing and private commercial sectors remained broadly unchanged in Q2. Downward momentum in the private industrial sector eased somewhat but workloads continued to fall with a balance of 13% of respondents reporting decreases in activity.

RICS' forward-looking indicators suggest respondents remain cautiously optimistic about the coming 12 months. The workload and employment expectations' net balances turned slightly more positive in Q2. On average, respondents expect total workloads to increase by about 4% and headcounts to grow by 1% over the coming year. Meanwhile, the balance of respondents expecting profit margins to increase remained unchanged over the quarter and profit margins are now expected to grow by around 1% over the year.

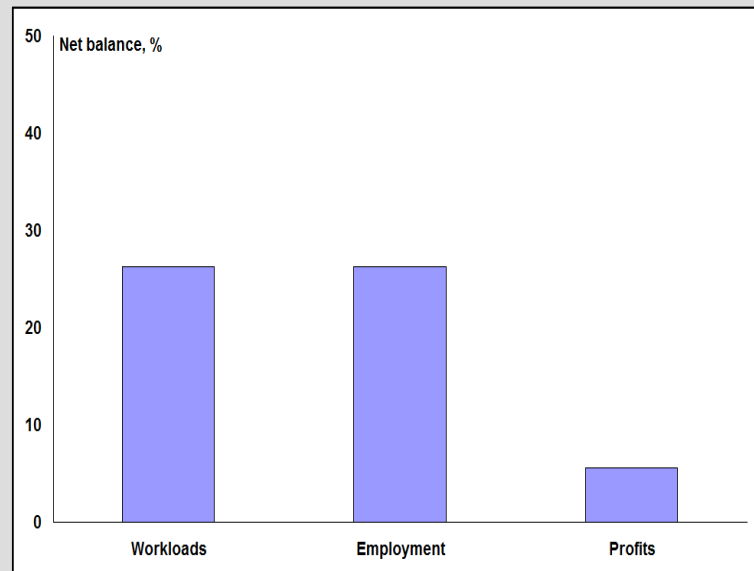
Financial constraints have been one of the major restrictions on construction activity recently and in Q2 they were the most significant impediment with 83% of respondents reporting problems. Insufficient demand was observed to be a greater problem in Q2 than in previous quarters with 72% of respondents highlighting the issue. Other notable constraints on activity included planning and regulatory issues (47%) and labour shortages (53%). These labour shortages appear to be spread across white and blue collar workers.

20% of respondents reported using Building Information Modeling (BIM) in Q2 with the majority using it for cost (33%) and design management (27%) purposes. Finally, the results suggest that there is likely to be little overall change to sustainability budget allocations over the coming 12 months.

Workloads - last 3 months



Expectations - 12 months ahead



About:

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

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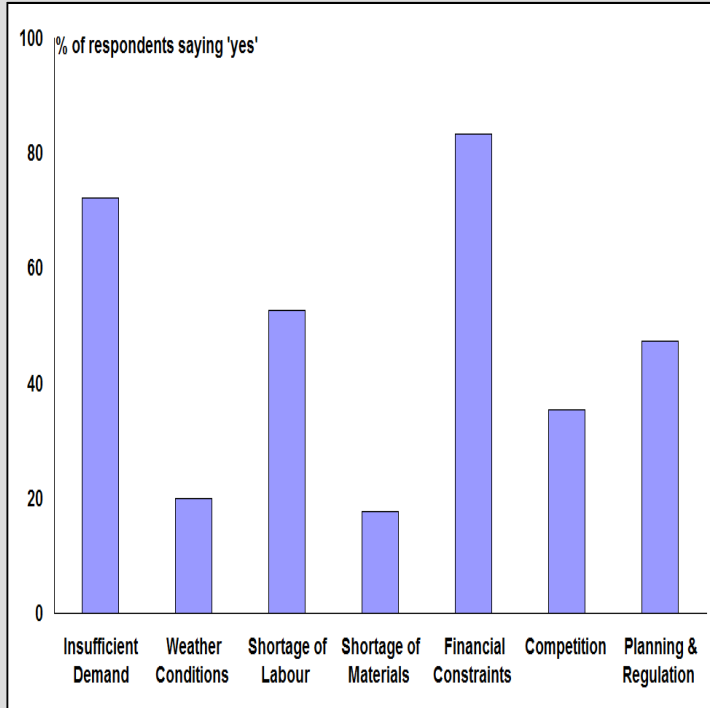


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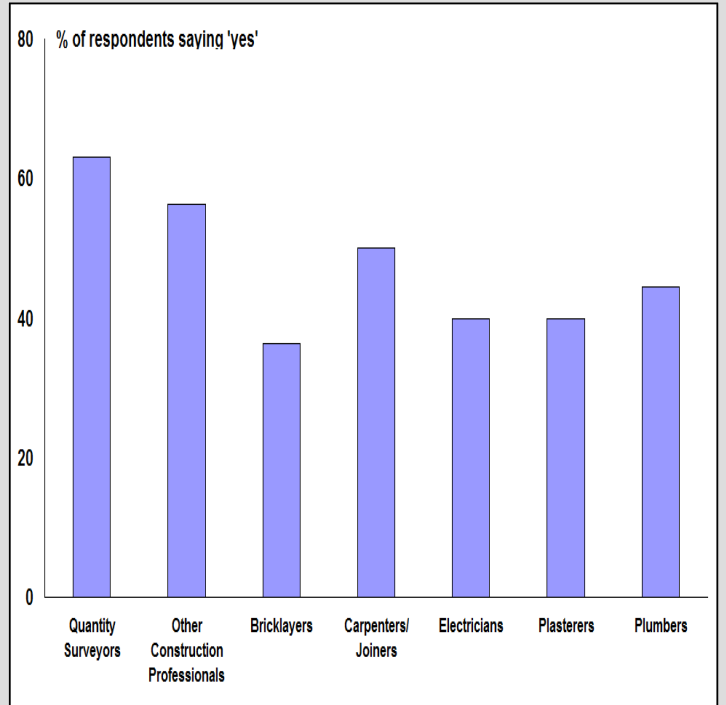
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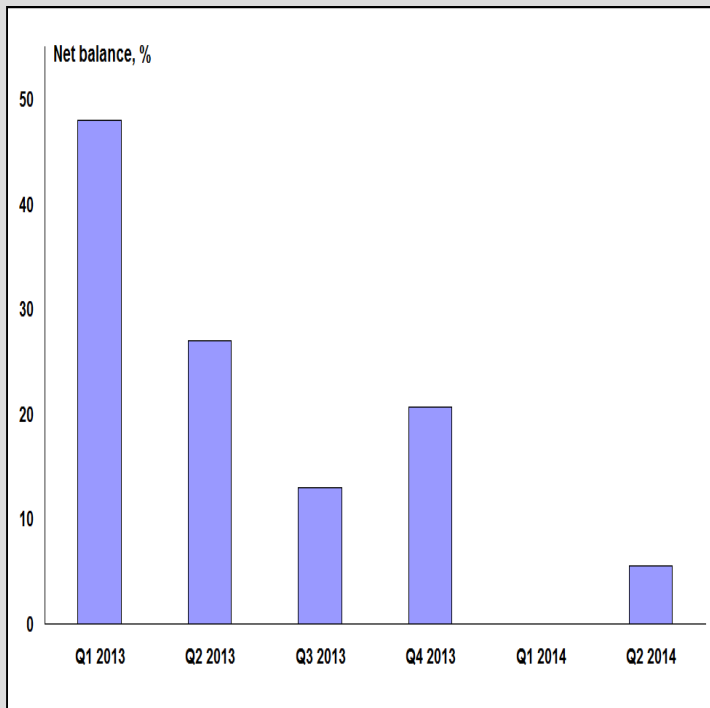
Factors limiting activity



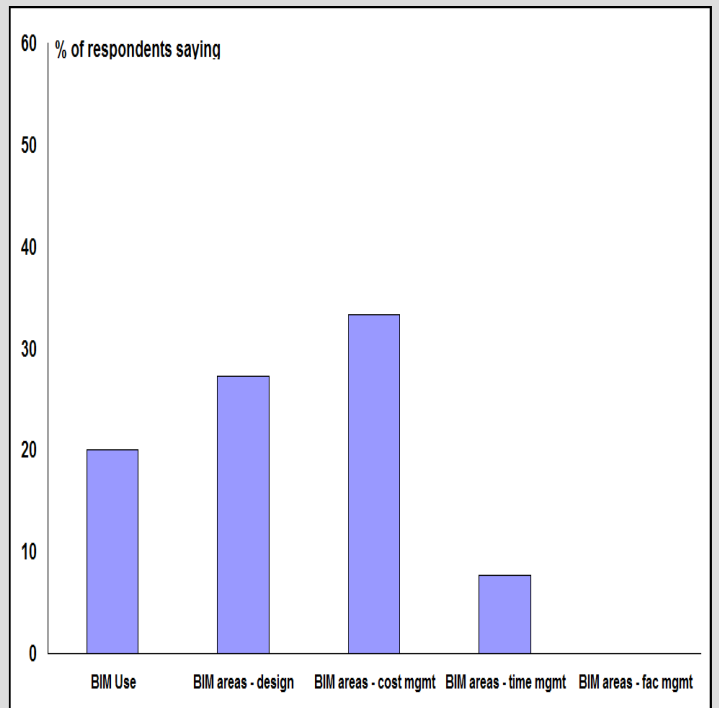
Skill shortages



Sustainability budget allocations



BIM - change over past 3 months



Notes to editors / Contacts

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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. Main factors currently limiting your building activity?
3. Has your company (or your contractors) experienced skills shortages in your area in the **latest three months**?
4. Has the usage of BIM increased or decreased comparing the **latest three months** with the previous three months?
5. 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?
6. Over the **next twelve months**, what change do you predict in these three areas of your company/department's activity? (Workloads, employment, profit margins)
7. How do you expect client sustainability budget allocations to change over the **next 12 months**?

Net balance data:

- 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.
- 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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