

Experts judge longer-term perspective as not too bad, though with challenges to profit margins

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At the Economic Forum of the CECE Summit in September 2015, tides are changing, and markets that were shining just a few years ago are in deep trouble now. At the Economic Forum of the recently held CECE Summit, industry experts discussed why the world economy is not doing too well at the moment, where construction activity will be seen in the near future, and why the prospects for construction equipment manufacturers are not that bad after all.

In his introductory speech, Philippe Waechter, Head of Economic Research at Natixis Asset Management, pointed out that the world economy clearly lacks significant growth drivers. This has implications on commodity and oil prices, which can be expected to remain low in the foreseeable future. While this is good news for regions like Europe as purchasing power rises, it brings more troubles to emerging markets that rely on exports of these products. According to Waechter, we should not expect significant interest rate hikes in the near future, as long as the overall economic climate does not improve.

For the construction sector, things seem to look a little better. According to Antonio Mura, Director at CRESME Ricerche, the world construction industry is experiencing the worst year since 2009 in 2015, but this will be followed by significant growth of 17% until 2019. Growth in construction is usually concentrated in emerging economies and, despite the current emerging markets slowdown, this trend will be seen in future years as well: by 2019, two thirds of construction investment will take place in these regions. The good news, however, is that, with the exception of Japan, there will be substantial growth even in mature markets, though clearly on lower levels.

Therefore, demand for construction equipment should be back on track at least in the medium term, when emerging markets take up their role as engines of growth. Unfortunately, as highlighted by Erik Sjödin, Associate Principal at McKinsey, those regions are typically not the most profitable ones for equipment manufacturers. Highest margins are currently generated in the North American market, and it will clearly be one of the major future challenges for manufacturers to profitably participate in growing emerging markets.

At the moment, as the Chinese construction equipment market tumbles – David Phillips of Off-Highway Research explained that Chinese manufacturers run at a capacity utilization of below 20 percent – and headlines are made with crises and scandals from Russia to Brazil, we see the unusual situation that sales

growth is concentrated in Europe and North America. Ann Duignan, equity analyst at JP Morgan, discussed with industry experts the short and medium term prospects of these markets, and how European manufacturers can remain competitive. Free trade agreements like TTIP may foster growth and competitiveness. The comparably weak European currency certainly helps in the short run, but the industry should look at staying competitive because of its core strengths like technological advancement and powerful distribution and after sales networks in the regions.

Source: CECE