Focus on

Short term prospects for the construction sector

November, 13th 2008

Highlights

⇒ The financial crisis that broke out in September has spread worldwide sparing no one and reaching out already to the real economy.

⇒ The full extent and length of the crisis is at the moment very difficult to gauge making any forecast for 2009 particularly unreliable. Much will depend on the actual effectiveness of policy measures (implemented, announced or still to be designed) by governments across the globe. Also international co-ordination will be crucial.

⇒ This is definitely not just another ordinary recession. At the same time, it does not seem appropriate to refer to the Thirties Great Depression. The most likely prospect thus lies somewhere in between these two extremes, i.e. a prolonged recession with a quite low recovery speed.

⇒ Commodity prices, inflation, and interest rates have changed direction: whereas a few months ago the spectre was inflation, now there is even talk of deflation. Hence, monetary policies are being relaxed almost everywhere.

⇒ There is widespread instability in forex market with the US$ gaining surprising strength vs the euro although fundamentals point to a trend reversal at some point in the coming months

⇒ The construction cycle was already weakening in mature economies following a decade of protracted expansion in housing. The financial crisis will accelerate the downturn where it had just started (in the euro area) and deepen it where it was already going on (in the US).

⇒ Prospects for construction are negatively tilted as cyclical downturns historically last around 3 to 4 years and supply/demand disequilibria piled up especially in the housing segment are wider than usual. Even if governments intervene anti-cyclically to sustain construction, mainly via higher infrastructure spending, it will take a relatively long time to see some positive effects. In practice, we do not see signs of recovery in 2009 and, barring perhaps the US, also 2010 could result being another difficult year.

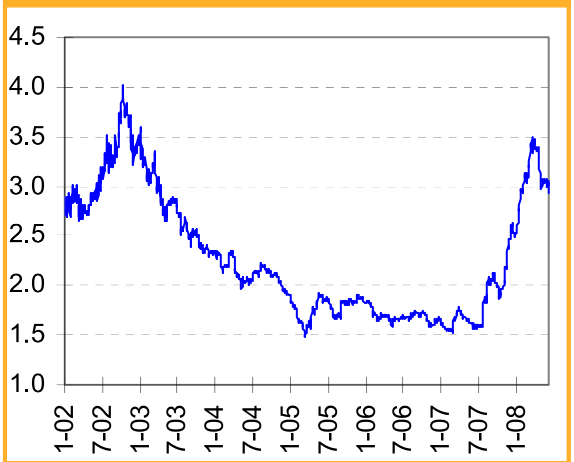
⇒ In emerging countries prospects are definitely better oriented although construction investment will decelerate across the board and cyclical positions will differentiate widely.

1. Macroeconomic conditions

The financial turmoil which erupted in September was already simmering over the previous twelve months following the crisis in the sub-prime market in the US in August 2007. Although a comparison with the 1929 meltdown appears misplaced, we are probably facing the worst crisis since the Great Depression as it has rapidly got global while its exact extent is still unknown.

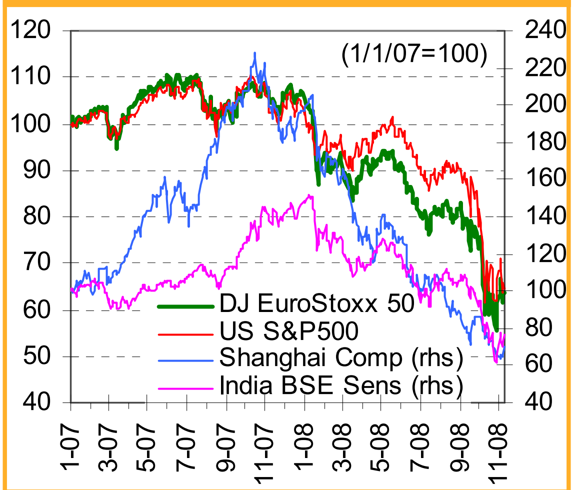
Without going into the details, the causes are rooted in a number of factors and events which unfolded over a full decade mainly in the US and include: too lax monetary policies, excessive household debt formation, and, in general, too high leveraging in financial markets, massive shift to the "originate-to-distribute" credit model - which has multiplied risk rather than simply transferring it and has ultimately contributed to a systematic underrating of risks. In addition, the line between banks and other financial institutions became very thin so that many operations escaped due vigilance. Financial consequences have spread along many directions: solvency problems for a number of banking/financial institutions some of whom were forced to go bankrupt, a worldwide credit crunch (even in interbank lending mutual trust among operators have become very low); a massive amount of losses in the financial sector which so far have been only partially offset by new capital injections; a generalised risk re-assessment which has sent spreads on riskier assets to record highs (graph 1); steep worldwide stock exchange declines as a result of both increasing risk aversion and worsening profit prospects (graph 2); extreme instability in forex markets with a paradoxically strong dollar and the end of carry-trade borrowing in low-yield currencies (yen, dollar, swiss franc).

Graph 1 - **Moody's *baa* Rated Bonds/ 10 Years US T-Bonds Spread**



Source: FED; daily data

Graph 2 - **Stock Exchange Indices**



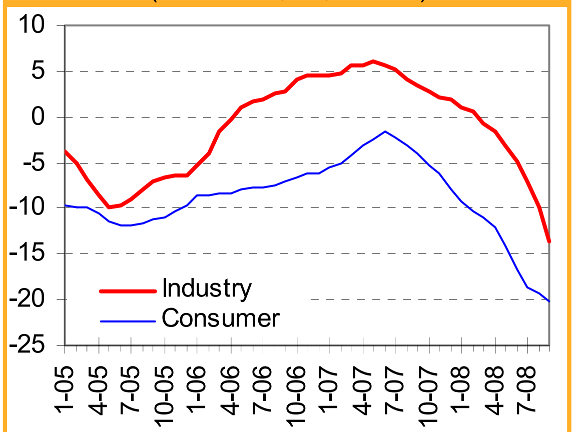
Sources: Daily press; daily data

Governments across the globe have announced massive intervention while Central Banks have acted repeatedly to ease liquidity constraints and lower policy rates. In addition, much wider co-ordination among governing institutions is prevailing and a wide range of economic policy tools is being tried to fix the crisis.

All of this notwithstanding, expectations have not yet stabilised and although the peak of the financial turmoil appears overcome there is still extremely high volatility in financial markets not to mention the still tight credit conditions worldwide.

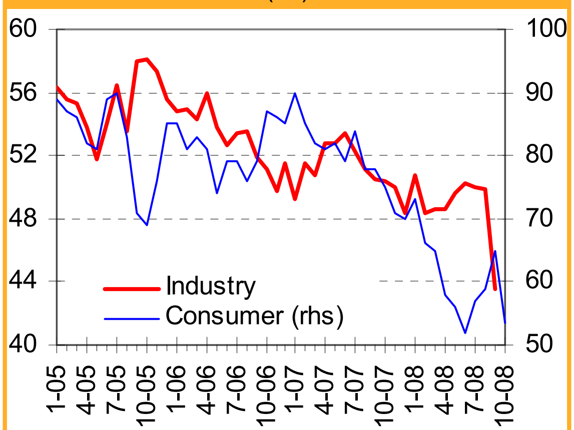
In any case, an irreversible damage to the economic cycle has been made as the transmission mechanism from the financial sector to the real economy is already at work via two main channels: widespread financing difficulties for firms, be it credit or new capital, which in turn affect the level of investment but also the ability of some market operators to survive bankruptcy crises and ultimately result in lower activity levels and higher unemployment; and negative wealth effects on households, particularly in the US but also spreading within Europe, which yield more cautious spending behaviours and higher saving propensity as both real and financial assets have lost part of their value. Add to this declining households and business confidence levels which are going to further depress the cycle (graphs 3 and 4).

Graph 3 - **Euro area: Confidence Indicators**
(% balance, sa, 3m ma)



Source: European Commission; monthly data

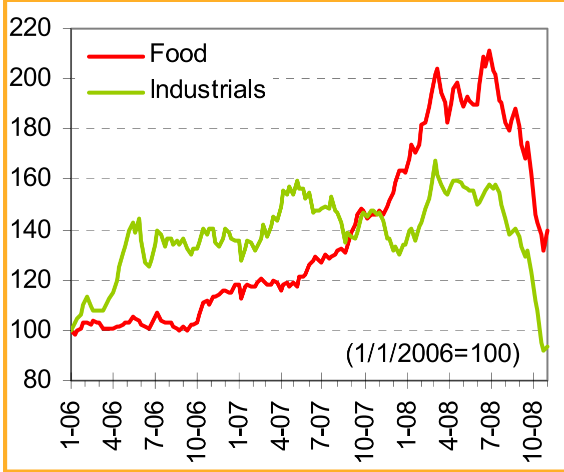
Graph 4 - **US: Confidence Indicators**
(sa)



Sources: OECD, Main Economic Indicators; monthly data

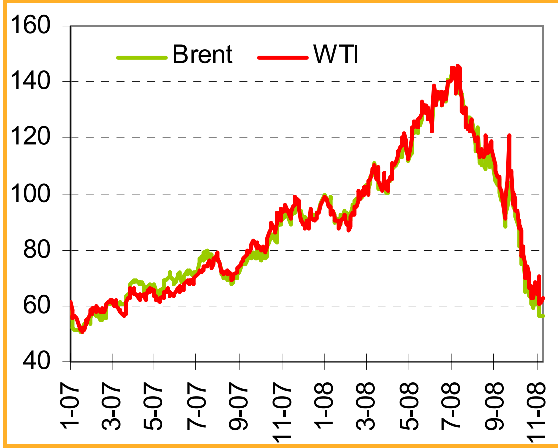
As a by-product of the crisis, the inflation threat appears to be fading and primary commodity prices, *in primis* oil, have come down steeply from last summer record highs (graphs 5 to 8). In fact, there is now even talk of the d-word (deflation) together with recession. Consensus forecasts for inflation have been thus reduced while widespread recessionary conditions are prevailing in mature countries (graphs 9 and 10). Policy rates have been cut worldwide, as said above, and while room for manoeuvre in the US is now very thin, in the euro area there is widespread expectation that the repo rate could be cut even down to 2% in the coming months. Needless to say, the effectiveness of monetary loosening depends on how quickly monetary markets return to "normality", i.e. trust is restored and interbank lending resumes smoothly enough to bring down interbank interest rates close to policy rates. In this regard, the latest developments on both Atlantic sides offer some reason for optimism (graph 11).

Graph 5 - **Non Energy Price Indices**



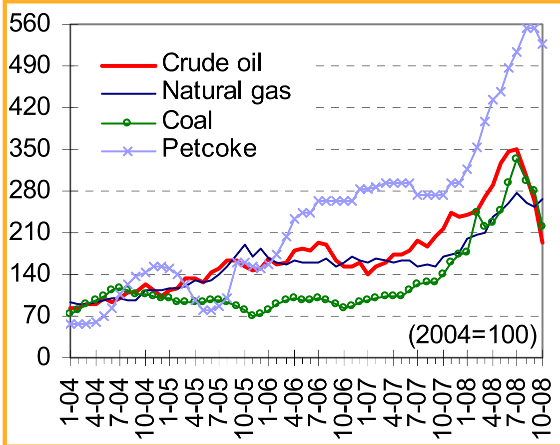
Source: The Economist; weekly data

Graph 6 - **Oil prices: daily data**
(US$/b)



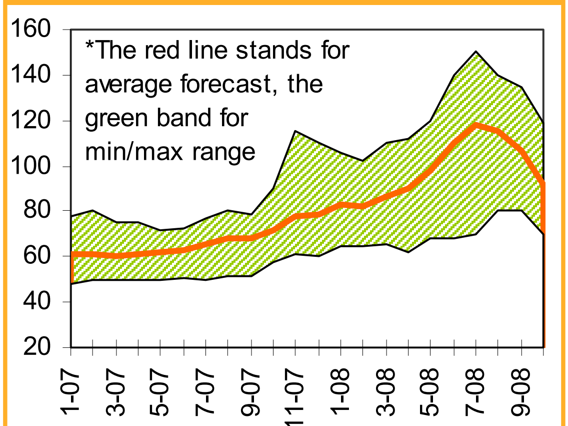
Source: EIA.

Graph 7 **- Energy Price Indices**



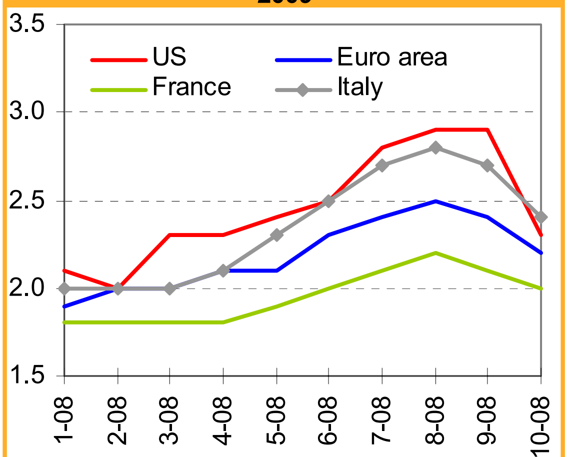
Sources: IMF and PACE Global Energy Services; monthly data

Graph 8 - **Oil Prices: 12-months Forecasts***
(WTI, US$ per barrel)



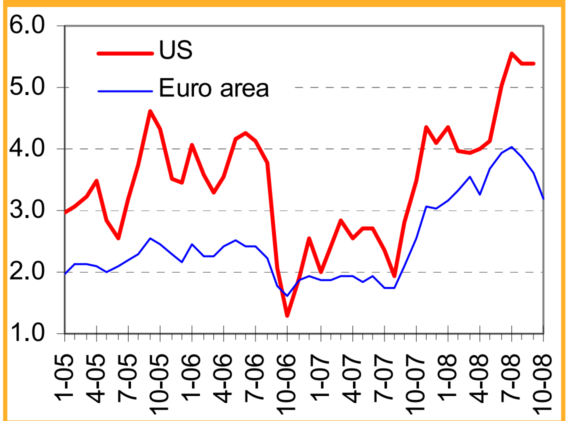
Source: Consensus Forecasts; various months. Forecasts by 70 international institutions

Graph 9 **- Consumer Prices Forecasts for 2009**



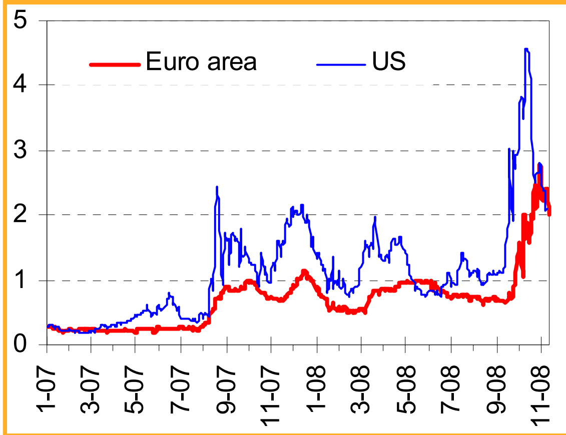
Source: Consensus Forecasts; various months

Graph 10 - **US and Euro Area: Consumer Price Inflation** (yoy % ch, sa)



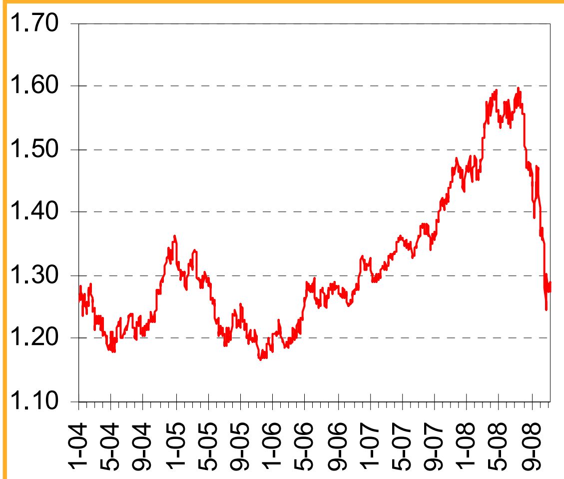
Source: OECD, Main Economic Indicators; monthly data

Graph 11 - **3 Months LIBOR/3 Months T-bills: Spreads** (percentage points)



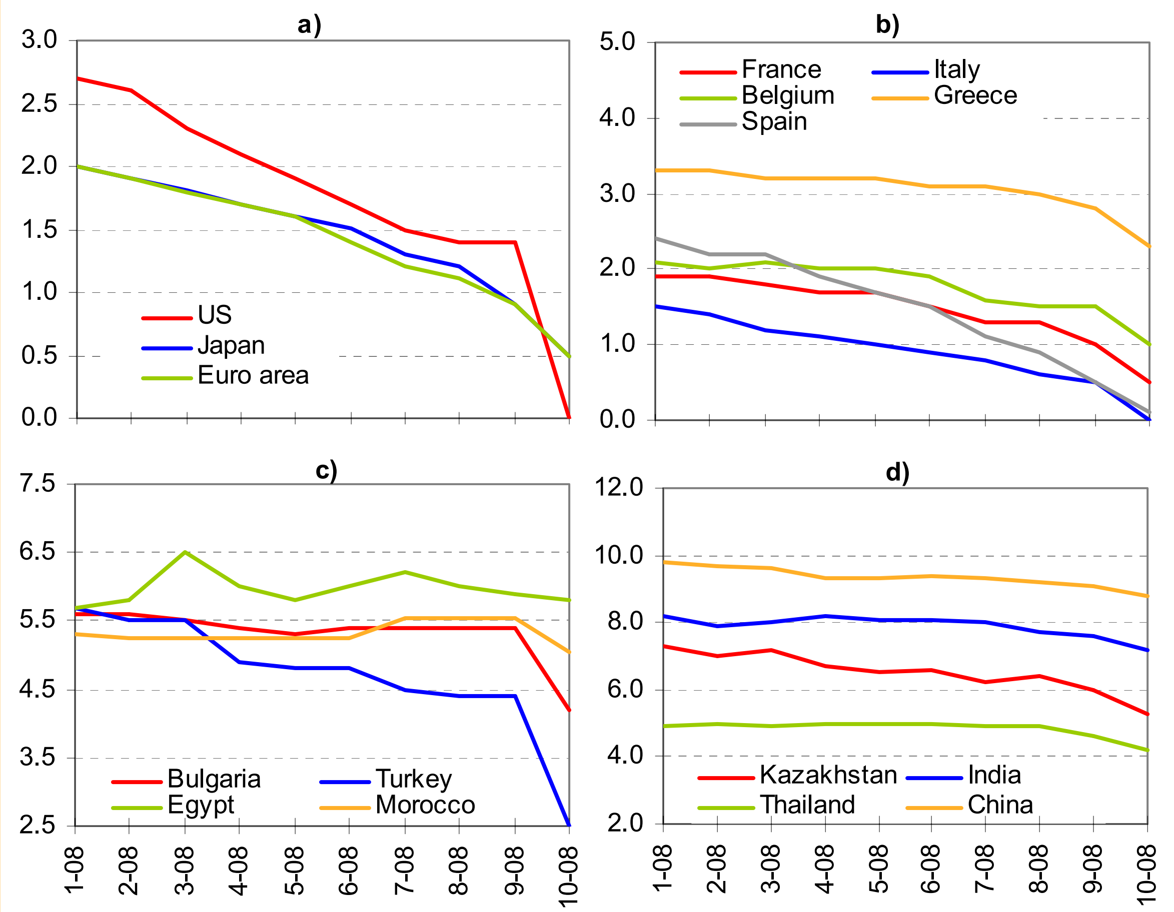
Sources: FED, ECB; daily data

Graph 12 - **US$/€ Exchange Rate**



Source; Daily press

Graph 13 - **GDP Growth Forecasts in 2009**



Sources: EIU, Global Insight, Consensus Forecasts; various months

In the forex market the dollar has sharply appreciated vs the euro (+25% from last July's peak, graph 12). A reason for this unexpected strength may be envisaged in the markets greater confidence on the resilience of the US economy vis-à-vis the traditional stickiness of the euro area. In fact, the dollar rally has unfolded against all the major currencies (and also the emerging countries' currencies) and has been most likely driven by massive funds repatriation in the US in order to close most debit positions. In this case, the current strength should represent a deviation from the underlying trend so that the euro should resume appreciating once fundamentals, which are in any case more favourable to the euro, prevail.

To conclude, the global economic weakening (and recession in mature countries) is now a fact, whose extent, width and length are however still very difficult to assess. The IMF itself has released very recently an update of the world economic outlook published just a month ago in which world growth is revised downwards by 0.2% to 3.7% in 2008 and by 0.8% to 2.2% in 2009 (see also graph 13 for Consensus Forecasts' revisions). We are sailing uncharted waters as there is no comparable event in economic history to provide us with some guide. For certain, volatility and uncertainty will prevail still for some time to come while policy intervention will be crucial.

2. Construction outlook in the Group's countries

2.1 Overall view

The outlook for construction in the Group's countries has deteriorated in recent months although the emerging area should fare generally better than the mature countries. Forecasters' sentiment has thus worsened across the board.

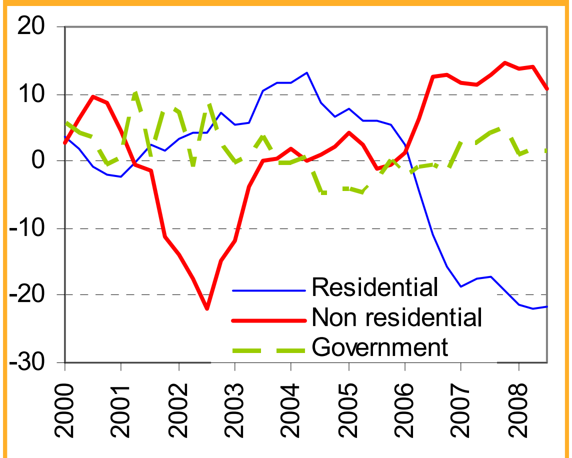
In North America and in the euro area the downturn in the construction cycle had already started following many years of intense housing expansion. The global financial crisis is further deepening the extent and the length of this otherwise "physiological" phase. This means that negative figures will dominate this year and the next one with no country escaping recession in housing and the US and Spain presenting the most critical situations. Note that in the mature area the downturn in construction originates in the housing sector but is also spreading to the non residential, given the weakening overall economies, while public works prospects vary case by case.

In the developing area conditions are diversified but a common feature is that the impact of the global financial crisis will be felt at all levels via tighter credit conditions and lower international demand. Construction activity will hence be affected, albeit to a varied extent. As a matter of fact, among the emergings there are a few countries which should exhibit relatively better performances amid some weakening (e.g. Egypt, Morocco, and to a certain extent China and India), while the others do present individual critical aspects (political instability in Thailand, increased vulnerability to external shocks in Bulgaria and Turkey, domestic banking troubles following the real estate meltdown in Kazakhstan).

2.2 North America

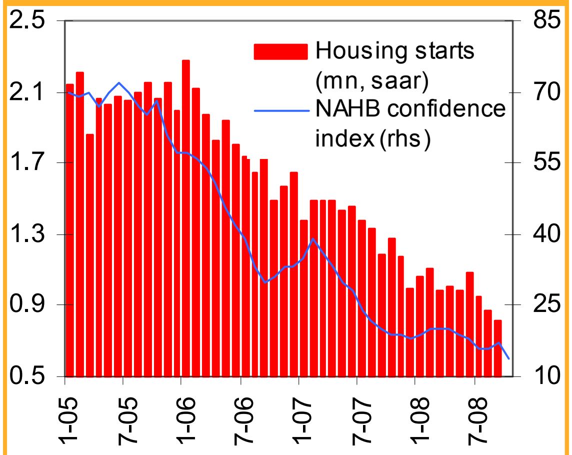
The residential sector continues its downturn unabated and does not appear to have bottomed out yet (graph 14). Conditions remain critical as shown by the latest national accounts data and by most housing indicators. In particular, in Q3 08 residential investment was down by 42% since the peak of the housing boom, the number of housing starts and permits issued fell in September to levels not seen since 1991 (they both kept falling at over 30% rates yoy) while the NAHB confidence index (graph 15) is at historical lows and downward pressure on prices has intensified - some nationwide price indices are 20% below their historical highs in 2006. The supply/demand imbalance continues to push down prices and activity. Contrary to the view prevailing up until a few months ago, the consensus view is now postponing the housing recovery to 2010 (table 1). The non residential sub-sector has remained surprisingly strong this year but a sharp turnaround may be expected as most indicators point to corporate retrenchment and the economy is weakening significantly. Public investment in construction is also set to decelerate following the marked deterioration in fiscal balances which are currently being burdened with the costs of the ongoing financial crisis.

Graph 14 - **US: Real Construction Investment by Type** (yoy % ch, sa)



Source: BEA, quarterly data

Graph 15 - **US: Housing Starts and Confidence Index** (sa)



Sources: U.S. Census, NAHB; monthly data

Table 1 - **US Residential Investments: Forecasts 2008-09***
(Housing units and real private residential investment, % change)

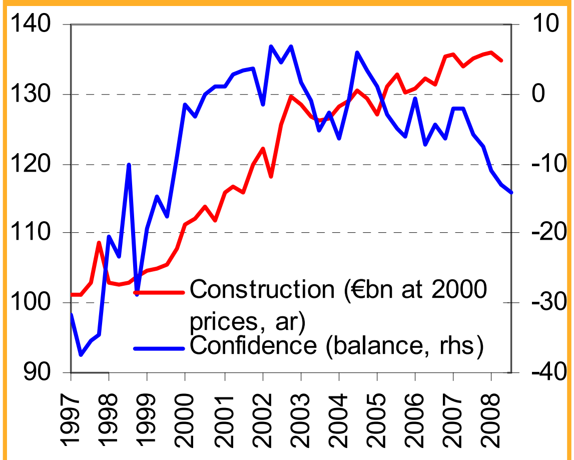
CONSENSUS	2008		2009	
	Housing starts	Residential Investment	Housing starts	Residential Investment
September-October	**-28.9**	**-20.3**	**-8.9**	**-7.7**
July-August	-30.3	-19.8	3.5	-4.0
May-June	-30.0	-21.6	7.6	-2.4
March-April	-27.8	-20.8	13.6	0.6
January-February	-22.7	-19.2	11.9	2.2

* The two indicators may differ for the following reasons: time lags between the two series; the number vs the value of homes; the inclusion of maintenance outlays in the residential investment figure

2.3 Euro area

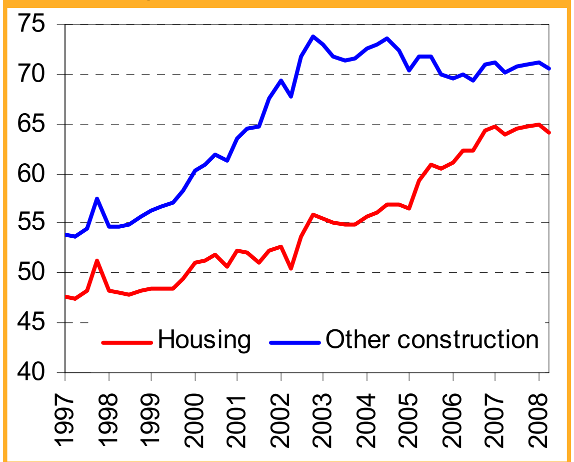
ITALY. Although Q3 national accounts data are yet to be released there is widespread consensus that Italy has entered recession - and there it will stay for some quarters. The consensus view on Italy's prospects has markedly deteriorated over the past months as the economy is suffering from a credit crunch which is hitting particularly small and medium enterprises, but also from depressed domestic and external demand (table 2). The combined negative effects of tighter financial conditions, decreasing profitability, lower confidence, sluggish demand and rising unemployment will affect construction throughout 2009 in all segments (see also graphs 16 and 17). In particular, the cyclical downturn in residential investment is bound to deepen further - as shown by the ongoing sharp deceleration in loans for house purchases (graph 18) coupled with the emerging evidence of house price reductions.

Graph 16 - **Italy: Confidence Index and Construction Investment** (sa)



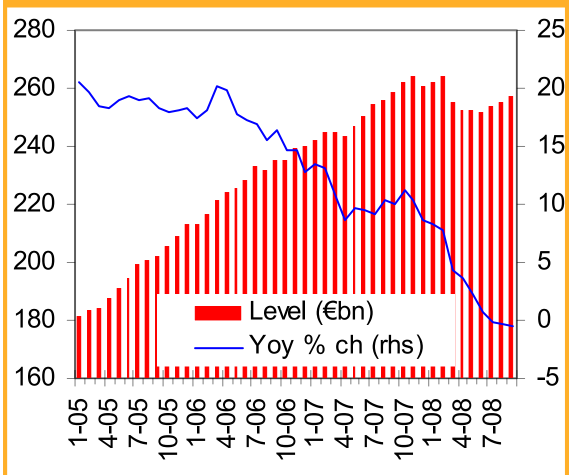
Sources: EU, ISTAT; quarterly data

Graph 17 - **Italy: Construction Investment by Type at 2000 Prices** (saar)



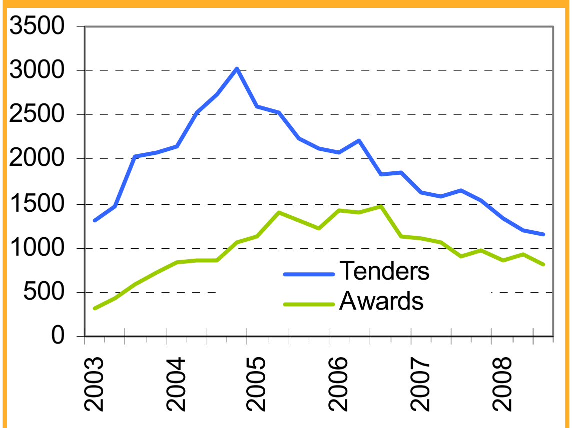
Source: ISTAT; quarterly data

Graph 18 - **Italy: Households Mortgages**



Source: Banca d'Italia; monthly data

Graph 19 - **Italy: Public Tenders and Awards** (3m ma, € '000)



Source: our elaborations on AITEC data for tenders and awards over € 1mn; quarterly data

Table 2 - **GDP and Construction Investment: 2008-2009 October Forecasts**
(% change in real terms)

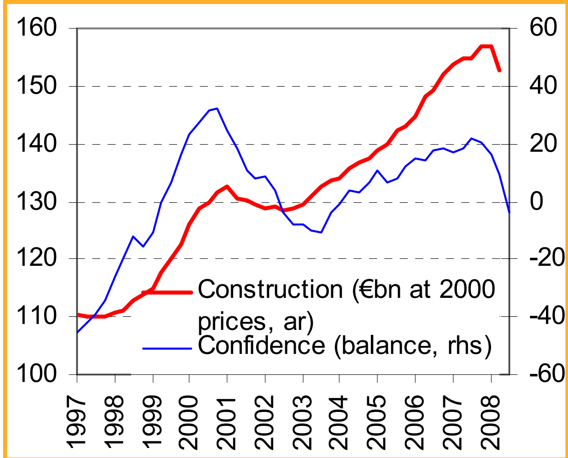
	GDP*		Construction*	
	2008	**2009**	**2008**	**2009**
IMF	-0.1 (0.3)	-0.2 (0.3)	-- --	-- --
ISAE	0.0 (0.4)	0.2 (0.7)	-0.1 (0.8)	-0.2 (0.7)
CSC	-0.2 (-0.1)	-0.5 (0.4)	0.1 (0.1)	-1.0 (0.5)
Prometeia	-0.2 (0.4)	-0.4 (0.7)	-0.4 (0.1)	-3.0 (0.0)
ANCE	-- --	-- --	-1.1 (0.6)	-1.5 --
Cresme	-- --	-- --	-4.4 (-2.1)	-5.7 (-1.9)
Ref	-0.1 (0.4)	-0.8 (0.8)	-0.6 (-0.5)	-3.8 (-2.0)
ASI	-- --	-- --	-0.3 (1.4)	-3.0 (1.2)
UE	0.0 (0.5)	0.0 (0.8)	-0.2 (0.4)	-1.7 (0.4)
Consensus	**-0.1 (0.3)**	**-0.3 (0.6)**	**-0.9 (0.1)**	**-2.5 (-0.2)**
Memorandum:				
ITC SESO	0.1 (0.5)	0.5 (0.9)	-0.5 (0.8)	-0.2 (0.7)
Government (Sept. RP&P)	0.1 (0.1)	0.2 --	-2.0 (-2.0)	-3.0 --

* Previous forecast by same institution in brackets

In the non residential, tightening financial conditions and falling demand are leading firms to scale back or postpone their investment plans. Public works are bound to be penalised by the government commitment to fiscal discipline unless anti-cyclical fiscal policies are put forward, using infrastructure spending, to help the country weather the current crisis. At the moment, all planning documents confirm the ongoing trend of dwindling resources for public infrastructure. The same negative trend can also be observed looking at the fall in public tenders awarded over the past two years (around 40%, graph 19). Overall construction investment is thus expected to record another negative performance next year. Even if the government intervenes and props up public infrastructure spending, it is unlikely the results will emerge as soon as in the course of 2009.

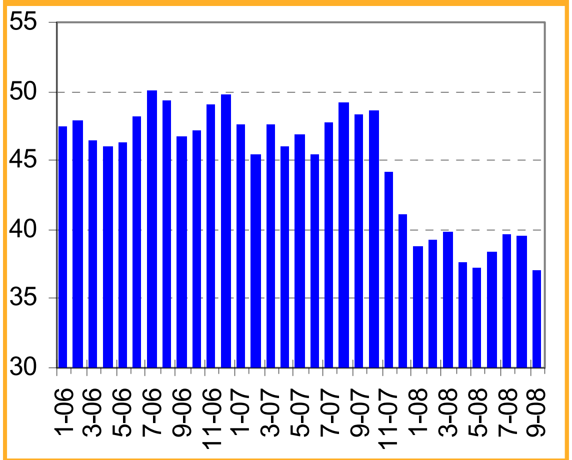
FRANCE. Construction investment contracted on a quarterly base in Q2 08 for the first time since 2002 and most indicators signal that this is only the start of a downturn set to intensify in the coming quarters (graph 20). Consensus forecasts keep on being revised downwards reflecting deteriorating leading indicators, from housing starts and permits to confidence levels (graph 21). The residential sector is going to contract further next year as the cyclical downturn is exacerbated by tighter lending conditions and a decline in personal disposable income. As a matter of fact, mortgage lending is already strongly decelerating while house prices have started receding. The worsening overall economic outlook coupled with tighter credit conditions is also hurting non residential investment (as visible in the fall in permits issued and work started of 24.5% and 19.4% yoy, respectively, over the period January-September). Finally, the phasing out of the electoral cycle coupled with growing difficulties to rein in the public deficit will result in a negative performance of public works next year. In this regard, the government is currently discussing plans to inject €175bn to finance infrastructures in the next triennium but even if passed these measures will likely have a delayed impact, i.e. beyond the forecast horizon.

Graph 20 - **France: Confidence Index and Construction Investment** (sa)



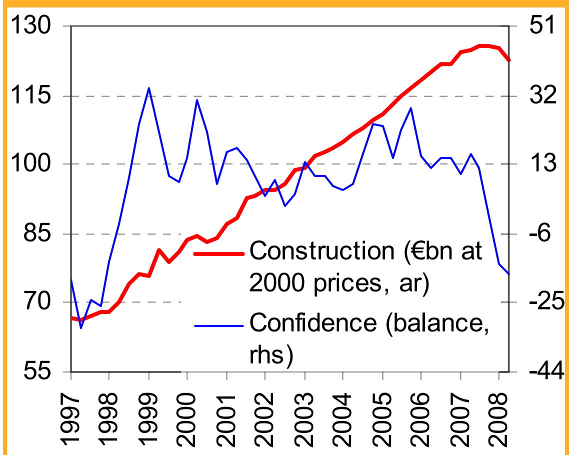
Sources: EU and OECD; quarterly data

Graph 21 - **France: Residential Permits Issued** ('000)



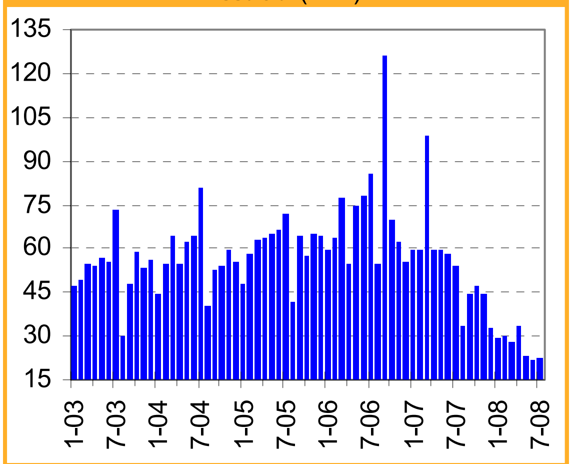
Source: MEDAD/SESP; monthly data

Graph 22 - **Spain: Confidence Index and Construction Investment** (sa)



Sources: EU and OECD; quarterly data

Graph 23 - **Spain: Residential Permits Issued** ('000)



Source: INE; monthly data

SPAIN. Prospects for the Spanish economy, and for construction in particular, keep worsening as the locally bred housing bubble burst couples with the global economic crisis. Consensus forecasts for construction point to largely negative figures for next year. Residential investment will be strongly limited by the need to rebalance an oversized housing sector and the risk is growing that this adjustment process may last well beyond 2009. Incoming data are increasingly negative: permits issued in July were down almost 60% yoy, mortgages are on a steep decelerating trend, price increases are at their lowest since 1997 - and negative in real terms (graphs 22 and 23). The tightening in the credit market and the bleak outlook for disposable income will add further downward pressure to the housing sector, also given the very high indebtedness level of Spanish households. Also the non residential sector is going to contract as firms will scale back or postpone investment plans given the severe recessionary conditions expected domestically. The still solid fiscal position, however, allows the government to announce and implement anti-cyclical interventions to support households, small and medium enterprises and property developers (via tax breaks, aid in cash to poorer families, a two-year partial moratorium on mortgage payments by the unemployed and other rescue measures). In addition, social housing programmes will be intensified while over €22bn have been earmarked in the latest budget proposal for infrastructure investment. The efforts of the governments should however offer only a limited support to the falling construction sector, particularly in the short term.

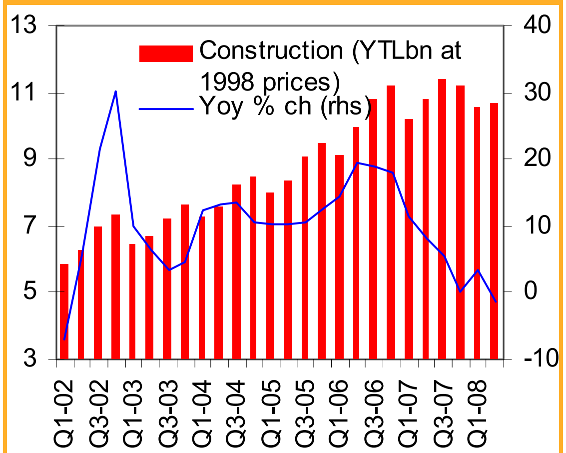
GREECE. In a context of deteriorating confidence, financial uncertainty and ultimately softening overall economic activity, investment in construction is expected to decelerate. As the housing sector will weaken sensibly, overall construction will turn negative next year. On the bright side, public investment should somewhat rebound reflecting an acceleration in the pace of implementation of the Community Structural Funds plan 2007-13.

BULGARIA. The economic performance has been robust in H1 08 but a marked slowdown is expected in the coming quarters as Bulgaria will not remain unscathed by the global turmoil. In particular, growing risk aversion among foreign investors could result in a significant deceleration in capital inflows and investment. This coupled with lower export to the ailing euro area, to tighter credit conditions and to still relatively high inflation will dampen domestic demand and most noticeably construction. Central Bank data on foreign direct investment reveal that inflows to the construction sector and particularly to the real estate have already fallen by 24% and 37% respectively in H1 08 and a reversal in this trend is at the moment unlikely.

2.4 Emerging countries

TURKEY. Just shortly after the governing party had escaped a constitutional ban and relative calm had been finally restored in domestic politics the global financial turmoil erupted - and Turkey is once again facing a difficult time. Although the economy is in a better position than in the past to weather the crisis the large external financing needs expose Turkey to increased vulnerability to shocks (latest estimates put the current account deficit ratio to GDP at around 6.5% for 2008). Not surprisingly the lira fell sharply in September/October (up to 30% vs the US$ and 18% vs the €) although most recently it has regained some of its value. At the moment it is not clear whether the government is really interested in seeking IMF support, albeit a precautionary stand-by agreement looks increasingly necessary. The recent lira devaluation

Graph 24 - **Turkey: Construction Investment**
(level and yoy % ch, ar)



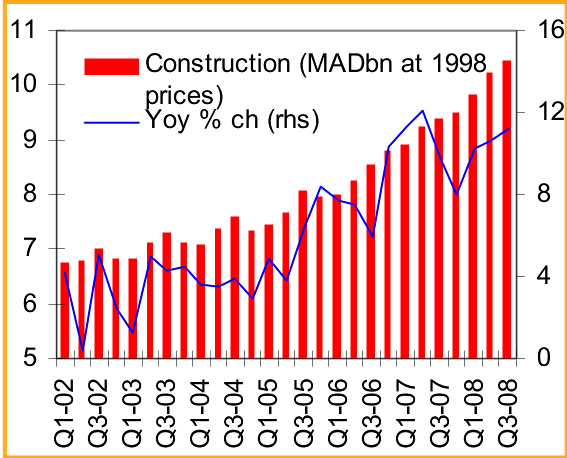
Source: Bank of Turkey; quarterly data

is set to put the disinflation process at risk once again which also implies the need for strict monetary conditions. The economy has slowed down sharply in H1 08 and further weakening looks inevitable due to falling confidence, tighter credit and faltering external demand. Construction activity is also facing a steep downward trend and turned negative for the first time since 2002 (graph 24). In fact, only the public component contracted (-20.5% yoy in H1 08) while private construction investment maintained surprising resilience (7.4% yoy in H1 08). Prospects for the whole sector are in any case rather gloomy given the high degree of uncertainty on issues such as the lira stability, the political situation, inflation developments and the sustainability of the external imbalance, which all together will contribute to postpone or halt investment projects.

EGYPT. The construction sector has kept running at robust pace in H1 08 (+14.7% yoy) without showing any hint of weakening. Large public infrastructure plans and vast tourist and residential structure projects are at the roots of the current boom. Although strong domestic demand dynamics coupled with significant public intervention appear to offer a solid backing to the overall economy, it is difficult to imagine that Egypt will not be touched by the ongoing financial turmoil and the ensuing tightening in global liquidity. In particular, investment in construction may suffer from diminishing capital inflows from the Gulf countries - if not from a straightforward withdrawal.

MOROCCO. Construction investment has remained vibrant over the first nine months of 2008 thanks to a range of government and private sector's housing, infrastructure and tourism projects. According to preliminary estimates the Moroccan economy slowed down only marginally in Q3 08 with the pace of growth of construction output still at double digit rate, yielding +10.7% yoy in the three quarters up to Q3 08 (graph 25). Loans to the sector continue to expand rapidly - almost +44% yoy in August - although there are indications that mortgages are starting to soften somewhat. Also barring an unfavourable agricultural season, the economy is bound to weaken due to a falling external demand and to smaller tourist numbers, in both cases particularly from the euro area. In addition, similarly to Egypt, Morocco is exposed to the drying up of capital inflows from the Gulf countries, hence some downward risk for construction which however should retain relative strength.

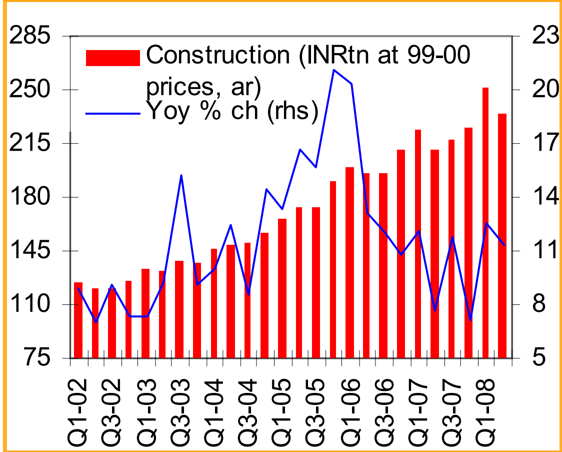
Graph 25 - **Morocco: Construction Investment**



Source: Haut Commissariat au Plan; quarterly

INDIA. The Indian economy had already started decelerating somewhat in Q2 08 on the back of high inflation and of the ensuing monetary tightening with the manufacturing sector particularly hit. The eruption of the global financial crisis has further dented foreign investors' sentiment towards India leading to heavy selling of local shares, capital outflows and ultimately a biting credit crunch which has

Graph 26 - **India: Construction Investment**
(level and yoy % ch, sa)

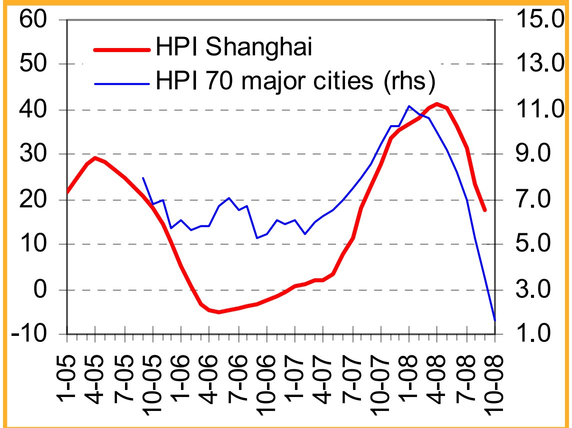


Source: OECD; quarterly data

sent interbank rates to record highs. As a by-effect the *rupee* has weakened sharply vs the US$ (around 20% since the start of the year and 14% since mid-August). Although inflation remains high the Reserve Bank of India (RBI) has intervened repeatedly in the past few weeks cutting both the reference policy rate and the reserve requirement ratio together with other measures aimed at boosting liquidity. In order to lend support to the infrastructure segment, the RBI as also decided to relax regulations on limits imposed on overseas funding for local infrastructure companies. As a matter of fact, the RBI appears now far more concerned on the impact of the global crisis on growth rather than on inflation. Construction has remained strong in H1 08 though slightly decelerating on a yoy basis (from 12.6% in Q1 08 to 11.4% in Q2 08, graph 26) but the outlook has become much less rosy. Many real estate developers are suffering from liquidity problems and there are fears that some of the weaker players may even default in the coming months. Nevertheless, prospects for construction remain on balance fairly benign, especially considering the decisive policy action by the RBI, even if a significant slowdown is in the cards.

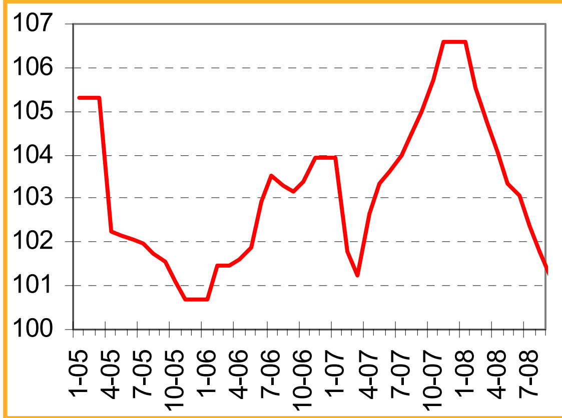
CHINA. The economic picture in China is deteriorating more rapidly and sharply than commonly expected. In fact, the recent announcement of a huge fiscal stimulus worth approximately 16% of China's GDP (ca. US$586bn) reinforces the suspect that the situation is worse than officially depicted, even in terms of social stability. The plan envisages investment in social housing and infrastructures through 2010, relatively loose monetary policy, tax deductions for purchases of fixed assets and reduction of loan quotas to sustain small business. It is however unclear how much of the investment is incremental relative to already planned investment, in particular with reference to the 11th five-year plan (2006-2010) rich of infrastructure projects. According to national sources emphasis will be put on railway construction. Other key targets will be social and rural housing and infrastructure and the construction of structures related to energy conservation and environment protection. The 2009 budget of 1 trillion yuan for earthquake reconstruction in disaster areas will be raised by a further 200 billion yuan. Although the full details and provincial allocation of the plan are not yet fully known the stimulus plan will help the Chinese economy and particularly construction to weather the ongoing sharp deceleration. As a matter of fact, in the construction sector the weakening is fully visible: the confidence indicator is falling to levels not seen since 2005 while both house prices and purchases have decelerated sharply (graphs 27 and 28). There is a nose dive in real estate construction in South and East China, the two real estate boom areas, and reportedly real estate construction projects are being suspended as in many areas evidence of overbuilding is emerging. All in all, however, prospects for construction, albeit worse than a couple of months ago, remain in the positive territory thanks to the government support and a perspective looser monetary policy stance.

Graph 27 - **China: Housing Price Index** (yoy % ch)



Sources: Ehomeday, National press; monthly data

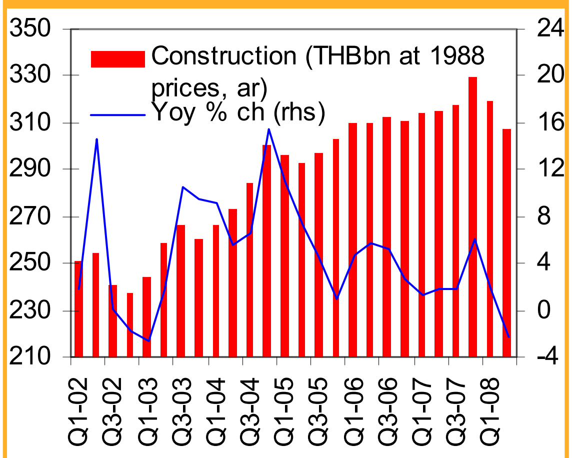
Graph 28 - **China: Real Estate Climate Index**



Source: National Institute of Statistics; monthly data

THAILAND. Political instability keeps weighing on economic activity and will likely continue to act as a drag on the economy together with the ongoing global slowdown. Construction investment turned negative in Q2 08 for the first time since 2003 (-2.4% yoy - on a qoq basis the fall started in Q1 08, graph 29) mainly due to the public component. This tumbled by 8.2% as the government kept postponing the implementation of large scale projects (such as the new mass transit rail lines in Bangkok) offsetting a still robust private construction activity driven by demand for dwelling and commercial units in the Bangkok municipality. Prospects for construction crucially depend on the effective implementation of the expansionary fiscal stance to which the government has committed, including a Bt46bn (US$1.4bn) six-month stimulus package which was launched in early August and an expansionary budget for fiscal year 2008/09 (October 08 - September 09). The government is also focused on pushing ahead with a number of large-scale infrastructure development projects. Given that inflation has slowed down, further support to the economy may come from monetary policy via lower rates. However, it is all the more apparent that investors' confidence, both domestic and foreign, is rather shaky, given the highly uncertain political scene, hence a downgrading in construction forecasts.

Graph 29 - **Thailand: Construction Investment** (sa)



Source: Bank of Thailand; quarterly data

KAZAKHSTAN. According to the latest official data the Kazakh economy cooled down substantially over the current year as growth in the first three quarters was down to 4% yoy (compared to a yearly result of 9.7% in 2007). The economy is suffering from both the consequences of the global financial crisis which is causing a credit crunch domestically and from the housing burst. The whole banking sector has been hit and the government has repeatedly intervened. Among the latest interventions there are: the creation of a distressed asset fund, with an initial capitalisation level of US$430mn, much lower than previously announced (US$1bn), the recapitalisation of four major banks accounting for almost two-thirds of total assets, and the injection of up to US$15bn (13% of GDP) into the economy for this year. The construction sector is among the most heavily hit by the current crisis as it had heavily relied on credit provision which has now become very difficult to obtain as the whole banking sector is showing serious signs of shakiness. Prospects remain thus downward oriented, particularly given the much lower oil prices at present and expected in the coming months.

Table 3 - **ITC Group Countries: Construction Investment Forecasts**
(% change in real terms)

	ITC SESO (Oct '08)			Coe-Rexecode (Sep '08)		European Commission (Oct '08)		Other sources	
	2007	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Canada	2.2	0.0	-1.0	--	--	--	--	-1.9	-0.9 (5,6)
US	-5.6	-8.0	-4.0	-21.2	-9.0 (3)	-4.9	-7.2	-8.0	-7.1 (5,7)
France	4.4	0.6	-2.0	-1.9	-2.5 (4)	-1.8	-3.5	-3.1	-4.2 (4,8)
Belgium	2.5	0.5	-2.0	1.0	0.3 (4)	2.6	-1.0	1.1	0.9 (4,9)
Spain	3.8	-4.0	-6.0	-3.2	-5.1	-3.8	-7.6	-4.0	-9.6 (10)
Italy	2.0	-2.0	-3.0	1.0	0.5	-0.2	-1.7	-0.3	-3.0 (11)
Greece	1.9	1.0	-2.0	--	--	-1.9	0.6	-3.1	-1.5 (12)
Turkey	6.0	0.0	-2.0	--	--	3.2	1.4	1.7	1.7 (1,13)
Bulgaria (1)	21.7	14.0	6.0	--	--	19.0	9.0	15.5	9.2 (14)
Morocco (2)	10.2	9.0	8.0	--	--	--	--	12.5	12.0 (1,15)
Thailand	2.4	0.0	-3.0	--	--	--	--	3.9	3.1 (1,13)
India (2)	9.6	8.5	7.5	--	--	--	--	10.9	8.4 (1,13,fy)
China (1)	11.2	11.0	8.0	12.0	10.0	--	--	12.0	7.0 (13)
Egypt (2)	16.2	12.0	8.0	--	--	--	--	15.5	10.0 (1,16,fy)
Kazakhstan (1)	8.2	8.0	7.0	--	--	--	--	4.9	6.4 (13)

(1) Gross fixed capital formation, "fy": fiscal year data beginning April 1st for India, ending June 30th for Egypt; (2) Value added; (3) Private residential investment; (4) Households residential investment ; (5) Private construction investment; (6) Royal Bank of Canada, November 2008; (7) Economy.com, November 2008; (8) Projet de loi de finance 2009, Ministère de l'Economie/Budget, October 2008; (9) IRES-Université de Louvain, October 2008; (10) BBVA, November 2008; (11) ASI, October 2008; (12) National Bank of Greece, August 2008; (13) Deutsche Bank, November 2008; (14) Consensus Forecasts, October 2008; (15) Budget économique exploratoire 2009, Haut-Commisariat au Plan, July 2008; (16) EIU, October 2008