OIL PRICE RECOVERY STRENGTHENS THE OUTLOOK FOR CONSTRUCTION ACROSS MENA

The MENA region is currently expanding at a moderate pace. Economic growth is forecast to accelerate from 1.5% this year to 3.2% in 2020, fuelled by a stronger outlook for oil prices. Oil prices are prone to volatility, posing both an upside and downside risk to this projection, and geopolitical tension in the region is high, which presents a further risk to stability.

Many nations have ambitious strategies in place to promote private sector investment and enhancements to existing infrastructure. Against this backdrop, the region's construction project pipeline is significant, with many sizeable schemes working their way through design and planning.

A healthy project pipeline doesn't necessarily translate into a buoyant construction sector. Project delivery in the MENA region currently faces headwinds from rising public debt and asset price weakness in the commercial and residential sectors. These headwinds are stronger in some regions than others but, across MENA, new project developments are generally slower to commence than originally planned.

"Construction cycles across MENA's primary markets are at different stages of maturity, and procurement strategy needs to recognise this in order to secure the most economically advantageous tender prices, while still being sufficient enough to deliver projects on budget. In aggressively competitive markets, the lowest tender price may not deliver the lowest outturn cost, so it's important to take a balanced approach to assessment."

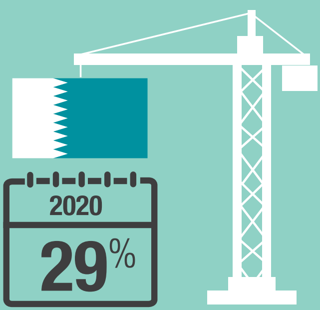
Paul Donaghy, Head of Cost Consultancy – MENA

"Oil producing nations are striving to broaden their economic base, but oil revenue still makes a significant contribution to economic activity across MENA nations. With oil prices recently exceeding $70 per barrel, the outlook for public sector finances has improved significantly. If this boosts public sector project delivery, there is a risk that available capacity - depleted during the recent downturn - will be swiftly absorbed."

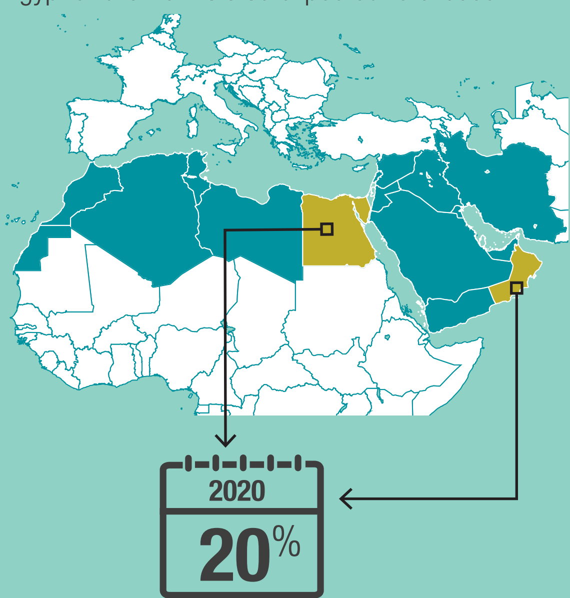
Mark Taylor, Regional Director, MENA

Egypt is forecast to record the strongest economic growth in the MENA region, with GDP predicted to grow by...

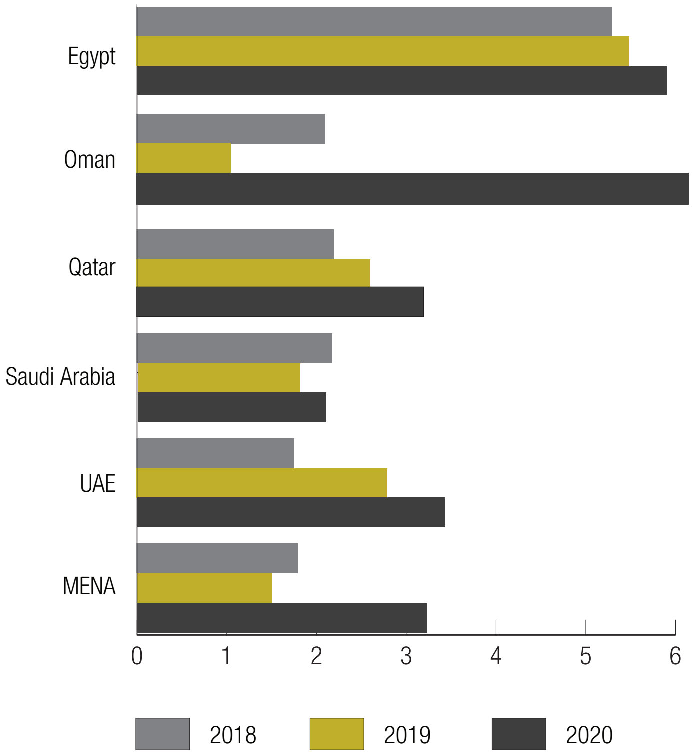
Qatar's construction market will be the fastest growing in the MENA region through to 2020, with output expected to increase by...



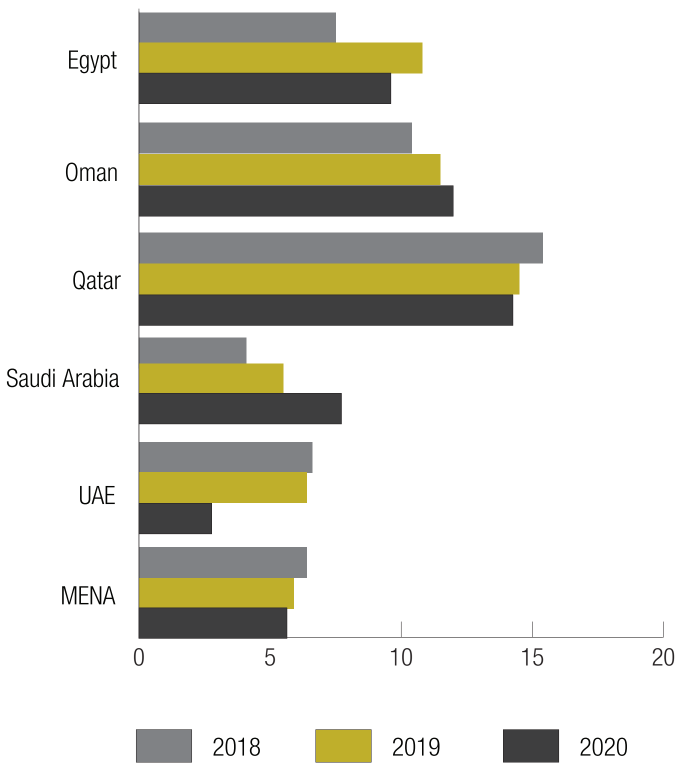
Through to 2020, construction output growth in Egypt and Oman is also expected to exceed...



GDP growth (real growth, % change)



Construction output growth (real growth, % change)



REGIONAL OVERVIEW

Relatively low oil prices have dampened the pace of economic expansion across MENA over the past few years, and regional GDP climbed by just 1.8% in 2018, according to the International Monetary Fund's (IMF) latest estimate. Prospects vary widely for individual nations across the MENA region. Deeply entrenched geopolitical tensions constrain the near-term outlook – Sudanese and Iranian economies are expected to contract sharply this year, and growth in Oman and Saudi Arabia should fall short of 2%. Together these factors suggest GDP growth across MENA will be relatively weak at 1.5% in 2019, before strengthening to 3.2% in 2020.

With activity in the oil, gas, and coal accounting for a significant proportion of economic output, oil price movements shape economic prospects. Demand and supply dynamics have recently shifted in oil producing nations' favour. Despite a slowdown in the pace of global economic growth, oil supply has tightened, due to factors including US sanctions on Iran and Venezuela, involuntary outages in Venezuela, escalating tensions in Libya and the Organization of the Petroleum Exporting Countries' (OPEC) decision to reduce production to a four-year low. As a result, oil prices recently exceeded US$70 per barrel, their highest level since late 2018.

The pace of growth in construction activity across MENA is forecast to slow from 6.4% in 2018 to 5.9% in 2019 and 5.7% in 2020, according to BMI. However, upside and downside risks to this optimistic projection exist.

A slowdown in the pace of global economic growth has reduced demand for base metals, and global commodities prices have generally fallen. World Bank data suggests global copper prices were down by 5% on an annual basis in March, with lead and aluminium down by 14% and 10% respectively. Iron ore is the exception and, at US$87 per tonne, prices were 23% higher than in March 2018. Iron ore prices have increased due to supply disruption at some of the world's largest mines, including the collapse of the Brumadinho dam at Vale's Córrego do Feijão mine in Brazil. The outlook for global commodities prices is more bullish due to ongoing supply disruption and fiscal stimulus in China, but fragile global market sentiment may weigh on demand.

UNITED ARAB EMIRATES

Subdued activity in the residential and commercial sectors has created a fiercely competitive procurement environment. A stronger outlook for oil prices may allow the government to initiate its pipeline of projects over the next year or two, helping to strengthen demand. Successful project delivery in the current economic climate requires robust financial modelling to ensure project feasibility against the demand backdrop. Failure to do so may lead to financial difficulties during the construction delivery phases, which will adversely impact the project completion and the supply chain.

ECONOMY

Supported by expansionary fiscal policy, the United Arab Emirates (UAE) economy grew by an estimated 1.7% in 2018 and the pace of growth is forecast to accelerate to 2.8% in 2019 and 3.3% in 2020, according to the IMF. Activity in the oil sector accounts for about a third of GDP.

Ghadan 21, a US$14bn package announced by the Abu Dhabi government in mid-2018, aims to boost investment and stimulate economic activity. US$5.5bn is earmarked to be spent in 2019 and it is hoped that funding will help to create 10,000 new jobs for Emiratis.

In addition, the UAE federal government approved a US$16bn expansionary budget for 2019, a 17% increase compared with last year. It focuses on improving citizens' well-being, health and education.

Survey evidence indicates an improvement in the non-oil private sector. The Emirates NBD purchasing managers index (PMI) rose to 55.7 in March 2019, as respondents reported an acceleration in output and orders growth. Employment levels stabilised after falling in February and business optimism hit a record high. Sentiment survey data can be volatile, and needs to be interpreted with a degree of caution, but the strength of the March data is nevertheless encouraging.

CONSTRUCTION

Construction activity increased by 6.6% in 2018, as work progressed on projects ahead of Expo 2020 in Dubai. Transport infrastructure has been a key growth area and impetus from these projects is expected to drive a further year of 6% growth in construction activity in 2019 across the UAE. Activity in other sectors has been far more subdued, and the Abu Dhabi Statistics Centre reported that building completions in Abu Dhabi reduced by a third, on an annual basis, in Q4 2018. In Dubai, 42% fewer new building permits were issued during 2018, covering a 38% smaller area according to the Dubai Statistics Centre. BMI expects the pace of construction output growth to slow to 2.8% in 2020.

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Residential property prices in Dubai contracted by an average of 6.9% in the year to Q4 2018, according to Property Monitor. Price falls were most acute in the Jumeirah Village Triangle and Dubai Sports City communities. Rents also reduced across the Emirate, and agents expect purchase and rental prices to continue to fall during the first six months of 2019. As the residential property market falters, calls for the government to relax the mortgage cap – limiting loan-to-value ratios at 75% for expats – are growing.

Demand for commercial office space in Dubai has also softened and rents are generally falling. Niche pockets of occupier activity exist, but the average fall in prime office rental rates in major business hubs hit 14%, according to property agent Cavendish Maxwell. A strong completions profile for new space in 2019 suggests the declining trend is set to continue.

Abu Dhabi's residential and commercial markets are equally subdued. Residential property prices contracted by around a 6% and office rents also contracted. Downwards pressure is expected to persist throughout 2019.

As part of a review of rental markets, Dubai's Land Department is considering introducing a three-year cap on rent increases on new contracts. If implemented, the cap would apply to all types of residential and commercial property and will restrict landlords' ability to raise rents when market conditions improve – a move that could further deter investment.

Construction costs are broadly static in the UAE and labour rates are falling as weak demand has increased competitive pressure.

KINGDOM OF SAUDI ARABIA

Work associated with Vision 2030 – the Kingdom's plan to reduce economic dependence on oil – will drive industry growth over the coming years, but the speed at which the privatisation programme is delivered will influence the outlook. Cash flow issues are a constant challenge that can have adverse impacts on the supply chain – elevating the importance of comprehensive due diligence on contractors' financial position and risk exposure prior to entering into contract.

ECONOMY

Oil, accounting for 43% of economic activity, has a large bearing on Saudi Arabia's economic health. In 2017, 1.3% growth in non-oil activity failed to offset a 3% decline in oil activity, leading to an overall 0.7% contraction in GDP. During 2018, the average oil price was 30% higher than in 2017, helping the economy to return to growth, and GDP expanded by 2.2%. Latest IMF forecasts suggest growth will slow to 1.8% this year, before hitting 2.1% in 2020.

The 2019 Budget cemented the government's commitment to boosting economic growth. The largest allocation to date will see US$35bn invested in boosting economic resources, which includes mega projects and initiatives relating to Vision 2030 Realisation Programmes. Unlocking the potential of private sector investment in social infrastructure is a core part of the Vision 2030 plan.

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In Q1 2019, the NBD PMI reading averaged 56.5, its highest level since Q4 2017, suggesting a healthy pace of expansion in the non-oil private sector. New orders growth also accelerated.

CONSTRUCTION

Investment in infrastructure, housing and facilities for tourists will underpin construction activity growth over the coming years. BMI forecasts a steady acceleration in construction sector growth over the period. After climbing by 4.1% in 2018, growth is set to hit 5.5% in 2019 and 7.8% in 2020. However, data specialist, MEED Projects, estimates that project awards reduced by around US$5bn to US$21.7bn in 2018 as the government attention turned to reducing debt which may mean BMI's growth projection for 2019 is difficult to achieve. MEED expects project awards to climb moderately in 2019/20.

The success of the recently established National Centre for Privatisation will help to shape the industry outlook. Privatisation plans include projects in the healthcare, transport, water, power and housing sectors. Approximately 24 projects with a collective value of close to US$38.6bn are in the pre-execution phase under the privatisation initiative, according to MEED Projects, but the Kingdom's ability to attract finance will be paramount. Foreign direct investment (FDI) in Saudi Arabia reduced to just US$1.4bn in 2017, down from US$7.5bn in 2016.

The Public Investment Fund (PIF), Saudi's sovereign wealth fund, manages assets with a combined value of US$250bn. Fund objectives include unlocking potential from new sectors such as industrial, manufacturing, entertainment and waste management. PIF investment is backing some of the country's largest projects, including the US$500bn NEOM economic mega zone, for which work commenced in Q1 2019, and the Red Sea Resort. Also, the PIF plans to develop around 350,000 homes at various locations across the Kingdom, via a public-private investment model.

Knight Frank reports that rents and occupancy levels in the office market continued to face downwards pressure in 2018. With a healthy supply of new space scheduled to hit the market, the declining trend is unlikely to continue over the medium term. Residential property prices also faced pressure due to poor affordability in the low-to-mid price tranche of the market, as well as buyer reticence in the wake of the recent inconsistent economic performance. While these constraining factors are unlikely to ease over the near term, government initiatives to increase supply of affordable housing and a brighter economic outlook should help to increase transactions and stabilise the market.

Construction costs are generally rising across the country, but project-specific factors have a bearing on the rate of increase. Wholesale price indices, produced by Saudi's General Authority for Statistics, recorded a 6.4% change in ores and metals prices in Q4 2018. Inflation rates moderated in early 2019, but pockets of stronger inflationary pressure remain. Brick and copper prices bucked the increasing trend, falling by 6.5% and 11.5% respectively, on an annual basis.

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To increase non-oil revenue, and boost employment of Saudi nationals, the government introduced a foreign worker tax in January 2018 – a levy it planned to double by 2020. In its first 12 months, the tax failed to boost employment of Saudi nationals, and has contributed to the exodus of hundreds of thousands of migrant workers, prompting the government to shift its stance. Details are still to emerge, but a US$3.1bn fund has been approved to compensate private-sector enterprises that have successfully increased employment of Saudi nationals.

QATAR

As several large schemes near completion, competition has intensified in the Qatari contracting market. Beyond 2019, demand is likely to strengthen as the Qatari government's Public Private Partnership (PPP) model for delivering social infrastructure builds up a head of steam, investment in transport infrastructure continues, and planned investment in liquefied natural gas production capacity progresses.

ECONOMY

Qatar's economy expanded by an estimated 2.2% in 2018 and the pace of growth is set to accelerate to 2.6% in 2019 and 3.2% in 2020. Economic reforms – ranging from strengthening employment laws to the privatisation of public assets and a relaxation of foreign ownership limits – are helping to attract higher levels of foreign investment.

Recent PMI data suggests 2019 got off to a sluggish start, but a sharp rise in new contract awards and stronger output expectations point to a more optimistic outlook. Recent survey data from the Oxford Business Group also suggests a more positive outlook. 84% of CEOs responding to the survey said they were positive or very positive about local business conditions in the near-term.

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Plans to facilitate trade between Qatar, Kuwait, Oman, India, Pakistan and Turkey, via the New Emerging Belt Initiative (NEBI), are progressing. NEBI is a new economic corridor which aims to forge new alliances and connect businesses across this economic bloc, which has a combined value of US$2.1tn.

Tensions with neighbouring Saudi Arabia, the UAE, Bahrain and Egypt continue to influence regional politics. However, Qatar's proactive response and prudent fiscal policy has significantly limited the economic impact of the diplomatic rift, according to IMF analysis. As diplomatic and economic ties were cut, Qatar was swift to invest in infrastructure to enhance self-sufficiency and help overcome the challenges the blockade presented.

Earlier this year, Qatar announced its decision to leave OPEC. With daily output of around 600,000 barrels, Qatar accounts for less than 2% of OPEC's total production. As such, the decision to leave failed to have a significant impact on global oil prices – and is unlikely to do so going forward. Separation does allow Qatar greater autonomy to work towards achieving its strategic objectives. As the world's largest exporter, liquefied natural gas is far more important to Qatar's economic prospects than oil.

CONSTRUCTION

Double-digit growth in construction output was achieved in 2018 as preparations for the 2022 FIFA World Cup and sizeable investment in transport infrastructure drove industry growth. Going forward, plans to expand power generation and water production capacity by nearly 30% will help to sustain output growth over the forecast period.

Outside of infrastructure, near-term prospects are more subdued due to a temporary hiatus in social infrastructure investment as the Qatari government moves to a PPP delivery model and weak asset prices in the private sector. ValuStrat's residential price index recorded an annual reduction of 9% in house prices in Q4 2018. Median rental values also reduced by nearly 11% year-on-year. The commercial offices market had an equally lacklustre performance. Median office asking rents fell by 15% year-on-year, as supply and vacancy rates crept upwards. Retail performance was stronger and headline rents held firm, despite a 3% increase in new supply.

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MEED Projects reports that projects associated with Qatar's National Vision 2030 have a combined value of US$85bn. The strategic National Vision aims to transform Qatar into an advanced economy by 2030 through a focus on human, social, economic and environmental development. Some projects have recently completed, such as the Doha metro. Others are ongoing, such as the US$11bn redevelopment of the Bul Hanine oil field, which aims to more than double the field's oil output by 2020. Meanwhile, others have yet to commence on site, although phase two of the Hamad International Airport expansion is scheduled to start imminently.

January's producer price indices, compiled by the Ministry of Development Planning and Statistics, recorded declines in the prices of core construction materials. Basic metals reduced by 7.7% on an annual basis, whereas cement prices fell 3.8%. Stone, sand and clay prices bucked the declining trend to climb 1.5%, relative to January 2018.

Under a recent change to employment law, employers will no longer have the right to deny exit permits to their migrant workforce. Migrants account for around 90% of the country's total population and these changes help to strengthen workers' rights.

OMAN

With the government's focus firmly on debt reduction, the near-term outlook for construction is subdued. Over the medium term, the project pipeline is expected to increase, providing a boost to the construction sector.

ECONOMY

The IMF estimates that the Oman economy grew by 2.1% in 2018. 2019 is forecast to be a more challenging year for the nation, during which growth is expected to slow to 1.1%. By 2020, the Sultan of Oman's strategy to enhance economic diversification by encouraging private sector-led growth is expected to yield fruit, and the pace of expansion is forecast to hit 6.2%. Downside risks to this projection exist, not least from exposure to volatile oil prices.

Vision 2040 is due to be finalised in early 2019 and will guide infrastructure investment targeted at increasing competitiveness and building sustainable cities. Economic diversification and private sector partnership are pillars of the strategy. Reducing obstacles to foreign direct investment could provide a significant economic and industry boost.

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Public sector finances remain a concern. A persistently negative current account balance presents a downside risk to economic stability and investment. IMF analysis suggests the current account deficit reduced to 5.9% of GDP in 2018, but this followed three years in double-digit territory.

Reliance on oil also poses a risk. Oil price volatility and output variability creates significant uncertainty. Should oil's contribution fall short of expectations, government spending may need to reduce, or action taken to increase fiscal receipts such as the introduction of VAT.

CONSTRUCTION

Oman's construction sector grew by an estimated 10.4% in 2018, according to BMI, and the pace of growth is set to accelerate over the next two years to 11.5% in 2019 and 12.1% in 2020. Large schemes are driving this bullish outlook, including the US$2bn redevelopment of Port Sultan Qaboos, which is comprised of hotels, residential and retail, in addition to port infrastructure.

However, the need to reduce government spending and a relatively sluggish pace of economic expansion can hinder contract awards.

MEED Projects reports that projects with a total value of US$177bn are planned or underway in Oman, and that a healthy pipeline of projects designed to support Muscat's aims for diversification away from oil exists.

However, the need to reduce government spending and a relatively sluggish pace of economic expansion can hinder contract awards. MEED's pipeline of unawarded projects in Oman is running at US$126bn and the firm has expressed doubt that all schemes will progress, noting that major schemes such as the national rail network have been on hold for many years – a position that is unlikely to change in the foreseeable future.

EGYPT

Buoyant industry activity and a positive outlook for broad-based growth will weigh on contacting capacity over the coming years and pose a challenge with increasing construction costs.

ECONOMY

The Egyptian economy is forecast to expand at a relatively rapid rate over the next two years, beating the 2018 rate of 5.3% in both 2019 and 2020, according to the IMF. 2018's strong performance was driven by sustained growth in natural gas production and a recovery in tourism. GDP is forecast to increase by 5.5% this year and 5.9% in 2020.

Egypt's ongoing economic reform programme, supported by a US$12bn IMF Extended Funding Facility, and improved business climate, is expected to boost industrial activity and exports.

President Abdel Fattah El-Sisi's victory was convincing in the 2018 presidential election, but turnout was low and political stability may be tested as the Egyptian Parliament pursues constitutional changes to increase power over the judiciary and to lengthen the presidential term to six years. Egyptian law prohibits public demonstrations, and opponents have been silenced, although some commentators warn that disquiet is rising.

High levels of public debt continue to pose a downside risk to the strength of the outlook. Egypt's 2018 debt-to-GDP ratio reduced from 103% in 2017, but at 93% remained relatively high. Economic reform to reduce subsidies and increase taxes should continue to strengthen the fiscal position over the next few years.

CONSTRUCTION

BMI forecasts a strong outlook for Egypt's construction sector. After climbing by 7.5% in 2018, output is forecast to rise by 10.8% in 2019 and 9.7% in 2020, as power, infrastructure and industrial projects build up a head of steam. MEED Projects cites an impressive project pipeline. Schemes currently working their way through planning have an estimated value of US$247bn.

Delivering an ambitious renewable energy programme is a priority for the government. Following the successful introduction of feed-in tariffs, the government is seeking private investment to deliver a pipeline of independent power projects.

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JLL reports that rental growth in Cairo's residential, retail and offices sectors is accelerating. New supply of commercial office space, totalling 161,000 square metres is scheduled to complete over the next two years.

The March 2019 Emirates NBD PMI suggests cause for cautious optimism outside of the public and oil, gas and coal sectors. The composite indicator rose from 48.2 in February to 49.9 in March; a seven-month high, signalling broad stabilisation of the health of the non-oil private sector economy. The increase, due to a marginal increase in new orders, has encouraged some businesses to lift activity.

Mace
Aspect Tower: Business Bay – Executive Towers
Zone A – Level 21: Office No. 2104
Sheikh Zayed Road
Dubai
United Arab Emirates
+971 4 447 0207

Mace
155 Moorgate
London EC2M 6XB
+44 (0)20 3522 3000

Contacts

Paul Donaghy	+971 4 447 0207	paul.donaghy@macegroup.com
Steven Mason	+44 (0)20 3522 3595	steven.mason@macegroup.com