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China's construction sector forecast to slump to historic lows: no recovery expected until 2030

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Construction growth in China, the world's second largest economy, is forecast to reach historical lows in the short term, with housing construction registering a decline for the first time ever.

Construction is then expected to make a slight recovery in the years leading up to 2030, according to a report by Global Construction Perspectives and Oxford Economics released on Tuesday.

China is one of the main drivers of construction worldwide, followed by the US and India.

"China has passed the peak in terms of construction activity, I would say the peak was more like 2013. Last year we saw decline in terms of new starts, and also sales volume," said Joe Zhou, head of research in China at JLL real estate consultancy, adding housing has been in decline since last year but there have been positive signs the market will stabilise.

Construction output during the 2014 to 2020 period is expected to grow at a rate of about 3.9 per cent annually, less than one third of the average rate hit between 2005 and 2014.

In the long run however, growth is forecast to reach 4.8 per cent in 2020 to 2025, and 5.2 per cent in 2025 to 2030.

Housing will also be the slowest growing sector as it is projected to grow by only 2.5 per cent annually until 2020 before reaching 4 per cent from 2020 to 2030, the report said. Representing about 40 per cent of construction last year, the sector expanded at a rate of about 11 per cent yearly from 2005 to 2014.

Yet China remains the world's largest construction market. By 2030, China, US and India will account for 57 per cent of all global growth in construction and engineering, adding over US\$4.5 trillion to construction growth.

China will contribute US\$2.1 trillion to output and represent almost a quarter of all construction activity worldwide, slightly higher than present levels.

To boost construction, the nation is set to encourage infrastructure investment through its 'one-belt, one-road' policy - a project linking China with Europe through central and western Asia - as well as introducing new public-private partnership regulations to allow investment into domestic infrastructure.

Despite the projected slowdown, the nation's rapidly ageing population and the high proportion of people migrating to urban areas would spur potential long term growth in the sector.

The share of people aged 65 and above will reach almost 20 per cent by 2030. The rise of China's ageing population will cause the construction of new hospitals and other health care facilities.

China currently has over 24,000 hospitals that need to be modernised, and consulting firm McKinsey & Company predicts that health care spending will increase to US\$1 trillion by 2020, the report said.

Last month, China also announced that it will abolish its decades-old one-child policy and allow couples to give birth to two children. The increase in population by 2030 may potentially increase the labour force and drive further growth. On average, an estimated 8.5 million new houses could be built annually between 2014 and 2030, the report added.

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