In spite of what is currently reported on the news about the present global economy and the overall global economy actually look bright. The estimated annual global economic output for the next decade is estimated at 3–4 percent, which is similar to the growth demonstrated in the last decade. Similarly, the construction industry, which is a major player in the overall economy, is expected to surpass world economic output by about 2 percentage points. Advanced economies will experience slower general economic growth compared to developing economies due to the rapid rise of emerging markets, including China, India, and Brazil.

For the first time ever, emerging markets will be the engine of growth as a result of population growth, an expanding middle class, economic development, and wealth transfer from developed to emerging economies as developing economies industrialize and commodity prices increase. China will overtake the United States to become the world’s largest economy in five to seven years. In a similar fashion, India will overtake Japan and become the third largest economy in the world by 2020. Also by 2020, half of the top 10 largest economies in the world will be emerging countries; thus, global power will be more balanced in the next 10 years. Some of the developed markets, such as the United States and Australia, will grow at a slower pace than emerging markets but faster than most economies in Western Europe and Japan, where growth is expected to be in the low single digits.

**Global Construction Outlook**

Regardless of whether the country is emerging or developed, the construction industry plays a major economic role. It is estimated that the global construction industry accounts for about $8 trillion a year, which makes up about 15 percent of the world’s economic output. It is no surprise that in terms of sheer size, the United States and China are the two largest markets. Early this year, according to some published reports, China replaced the United States as the largest construction market in the world. China’s share of the total global construction industry is 15 percent, while the United States’ share is 14 percent.

The third largest construction market is Japan, with an estimated market size slightly half of the U.S. market. The next markets in the top seven are Germany, Spain, France, and Italy, with a combined market size of about $1.2 trillion, representing about 15 percent of the total global market. Of these, Germany is the largest, with an estimated market size of about $300 billion, and Italy is the smallest, with a market size of about $260 billion. The remaining top markets are India and England, with market sizes of $250 billion and $240 billion respectively. It is interesting to note that while India’s market is growing very fast, it is still only about 20 percent the size of China’s market.

**Global Construction Tendencies**

Undoubtedly, the 2007–2009 global financial crisis had a major impact on global construction output. During this period, global annual growth slowed to just less than 1 percent, and the largest decrease was in advanced countries, with a decline of 3 percent annually. On the other hand, emerging or developing markets slowed only slightly to about 6 percent in the same period.

As envisioned by most experts and economists, the long-term outlook for the global construction industry is anticipated to grow at an annual rate of 4–6 percent in the next decade. While growth is expected to be fairly evenly distributed during the next 10 years, some experts anticipate that the next five
years will experience a bit stronger growth as the global economy starts to bounce back from the most recent recession.

The bounce back will be uneven for developed and emerging markets. While there are different and divergent opinions on the subject, the overall consensus is that emerging markets will bounce back to historical growth rates of between 6–8 percent, while developed markets will grow at a more modest rate of 2–3 percent annually. The rapid growth rate of emerging markets will increase their importance, and it is expected that in nine to 10 years the emerging markets will be more than half of the total global construction market from the current level of 36 percent.

China, with its continued anticipated rapid growth rate, will hold its position as the largest construction market in the world, with almost 20 percent of the total global market in one decade from about 14 percent in 2011. With its anticipated rapid growth rate of 9 percent, India also will continue to increase in significance and most likely will move into the top five largest markets in the world in the next decade.

**Outlook By Sector**

In the three major sectors of the construction industry (infrastructure, commercial, and residential) in a country, the residential construction sector typically is by far the largest, representing almost half of the total market. On the other hand, commercial and infrastructure are about the same size each, and each represent about 25 percent of the total sector. While variations exist, this is very similar in most countries, whether developed or emerging.

As one may suspect, the residential sector was hit the hardest in the last recession, particularly in the United States, Spain, and other European countries where significant growth took place in the late 2000s. Thus, global infrastructure and commercial sectors are expected to be the engine of growth in the next 10 years, as developed countries upgrade their aging infrastructures and emerging countries build theirs.

**Advanced Markets (Developed Countries)**

The developed countries or markets consist of North America (United States and Canada), Western Europe, Japan, and Australia.

**Western Europe**

According to the United Nations, in the next five to 10 years, population growth in Western Europe will average about 0.25 percent per year. This is well below the 1.1 percent anticipated global population growth rate during the next 10 years. Countries such as Italy, Greece, and Germany are anticipated to have the lowest population growth rate. Europe’s low population growth rate will mirror its economic growth, which is anticipated to be around 2.1 percent per annum for the next 10 years. The construction sector is projected to grow at less than 2 percent for the same period. While this is an improvement from the last recession (2006–2008), it is still much lower than the 7–9 percent global construction forecast over the next 10 years.

The only anticipated bright spots in Western Europe are the United Kingdom and Greece, and at the other end of the spectrum are Italy and France, with very little anticipated growth during the next 10 years. U.K. construction output is forecasted to grow slightly less than 3 percent per annum, and even with the financial crisis that Greece is currently facing, most analysts expect its construction sector to grow slightly more than 3 percent in the next decade. In contrast, Italy’s construction sector is forecasted to grow about 1 percent per annum for the next 10 years, while France is projected to do slightly better than Italy. The annual growth rate of Germany’s and Spain’s construction markets for the same period will be between 2 percent and 2.5 percent. Overall, Europe’s projected construction market and gross domestic product are expected to be the lowest in the world.

**North America**

Amongst the developed markets, North America (United States and Canada) is anticipated to have the highest construction market growth rate during the next decade, which is anticipated at slightly more than 4 percent. Similarly, gross domestic product is anticipated to be around 3 percent for the same period. Some of the drivers for this growth are a growing population at slightly less than 1 percent and the need to upgrade aging infrastructure, which is rapidly deteriorating.

Taking a closer look at each country in North America, the United States is currently the largest economy in the world with the second largest construction market. Many analysts expect the United States to regain its place as the largest construction market in the world as it comes out of its worst recession since the Great Depression. GDP growth for the United States in the next 10 years is expected to be about 3 percent per year, while the construction industry is expected to grow about 5–6 percent over the next five years and 3–4 percent from 2016 to 2020. This growth will be driven by the residential sector, which is more than half of the total construction market. The commercial sector, on the other hand, is likely to improve in one to two years, but perhaps at a lower rate than the residential market.

Canada is the eleventh largest economy in the world, but it is still about one-tenth of the United States’ economy. Even so, Canada has a vibrant construction sector, as this sector is a much larger part of the economy (about 17 percent of GDP). In the next 10 years, Canada’s gross domestic product will be similar to the United States as its economy is closely tied to its neighbor to the south. However, the construction sector of the Canadian economy is expected to be a bit more robust, with an anticipated growth rate of 4–5 percent.

**Asia**

Japan and Australia are considered the only fully developed markets in Asia. While Japan is the world’s third largest economy and the third largest construction market behind China and the United States, its population and economic growth for the next 10 years do not look promising. Its population is projected to decline at an annual rate of about 0.24 percent as a result of very low birth rates, an aging population, and virtually no immigration. Similarly, its economy will grow at less than 1 percent per year for the same period. This is in sharp contrast to the overall global economic growth rate and to Japan’s own impressive economic growth from the 1960s through the 1980s. Japan’s construction market in the next 10 years will reflect its overall poor economic growth and is expected to grow around 1 percent or less.

Contrast this with Australia, and one finds a very different scenario. Australia, which has a relatively small population (about 22 million) and a huge land mass, has a rosy
Population growth is expected to be similar to the average global rate, while gross domestic product is forecasted to be about 3 percent per year for the same period. Similarly, the construction sector is expected to grow at about 4–5 percent, driven by its infrastructure sector. Australia’s economy is increasingly tied to Asia’s economies, and especially to China’s, which is driving Australia’s economic growth particularly in the mining sector.

**Emerging Markets**

The global financial crisis of 2007–2009 hit the construction industry extremely hard no matter the location. However, while industrialized countries had negative growth, emerging markets slowed from 11 percent growth in 2006 to just less than 1 percent in 2008–2009. Since 2009, emerging construction markets have been growing again at a pace of 5–7 percent, which is significantly better than developed markets. It is estimated that emerging markets will more than double in size during the next decade, with the main drivers being India, China, Asia Pacific, Latin America, the Middle East, and some markets in Africa and Eastern Europe.

The anticipated growth in emerging markets will be highly influenced by population growth where growth is anticipated throughout Asia (except Japan), the Middle East, and Latin America. Asia is expected to be the fastest growing region in the world. With an anticipated population growth rate of 1 percent and an even higher GDP growth rate (6 percent), emerging markets will be the global growth engine for the next 10 years. The leaders in the region for population growth will be the Philippines, followed by India, Indonesia, and Vietnam. China, South Korea, and Thailand are at the low end of the spectrum, with a predicted population growth of 0.2–0.6 percent. In sheer numbers, China has the largest population in the world with about 1.4 billion people. Almost 17 percent of the world’s population lives in China, and it is the third largest economy. Not far behind, India has a population of 1.2 billion people, but while it has the second largest population in the world, it is the twelfth largest economy.

**Asia Pacific**

Asia Pacific’s most influential members are China, India, Indonesia, the Philippines, Vietnam, Thailand, and South Korea, which are the main focus in this segment. Driven by China and India, Asia Pacific is predicted to be the fastest GDP growth region in the world over the next decade. However, the region’s average population annual growth rate (forecasted at about 1 percent) will be slightly lower than the global growth rate. Nevertheless, on average, economic growth for the region is expected to be at 7–8 percent per annum, which is much higher than the forecasted global rate of about 5 percent.

It is no surprise that the leaders in economic, population, and construction market growth rates will be China and India. China is the most populous country in the world with a population of 1.4 billion people and the second largest economy after the United States. In the last 30 years, China has grown its economy more than tenfold and has pulled millions of its citizens from poverty to middle class status. In the next 10 years, the economy is expected to grow at an annual rate of 7–8 percent. In similar fashion, China’s construction market has shown tremendous growth in the past and is expected to grow at an annual rate of about 8–9 percent in the next 10 years.

China’s only rival in terms of growth, population size, and development is India. India’s economy ranks twelfth in the world in terms of size and has a projected annual GDP growth rate of 7–8 percent in the next 10 years. Its construction sector is expected to grow slightly faster than its economic growth over the next decade, making it the second fastest growth market in the world after China. India’s current infrastructure system leaves much to be desired, but it is the focus of the Indian government, which plans to invest heavily in infrastructure development in the coming years. The commercial and residential construction sectors also are projected to grow very fast, but not as fast as infrastructure.

Indonesia, Thailand, Vietnam, Korea, and the Philippines all are projected to grow their economies 4–8 percent per year in the next decade. The growth leaders within these countries will be Vietnam and Indonesia, with close to 8 percent annual economic growth. At the opposite end of the spectrum with modest growth rates are Thailand and Korea, with about 4 percent annual economic growth.

**Middle East**

Closely mirroring Asia Pacific’s tremendous growth is the Middle East, which covers the Gulf States and North Africa. The area’s population during the next 10 years is expected to grow about 2 percent per year, which will make it the fastest in the world. Likewise, gross domestic product growth for the region is expected to be around 5 percent, while the construction sector is projected to grow at about 6–7 percent.

The leaders in population growth will be Saudi Arabia and the United Arab Emirates (UAE) with more than 2 percent annual growth rates. On the other hand, countries such as Morocco will have a relatively low population growth rate of about 1 percent. The GDP growth rate in the next 10 years for most of the Arab states is in the range of 4–6 percent, with UAE and Egypt projected to be the fastest growing countries. The slowest growing countries in the region will be Saudi Arabia and Morocco, with about 4.5 percent growth. While the economies are not expected to grow as fast as Asia Pacific, economic prospects for the Middle East for the next 10 years look bright and promising.

**Latin America**

Although not as fast growing as the Middle East or Asia Pacific, most Latin American countries are full-fledged democracies with established market economies and are poised to grow. The region’s population is projected to increase by just less than 1 percent annually over the next 10 years. This is just below the 1.1 percent global population growth rate; however, the gross domestic product growth rate for the same period is expected to be between 6 percent and 7 percent per year. The construction sector is expected to grow only slightly more than the GDP.

Brazil and Mexico make up approximately 70 percent of regional GDP and are expected to have economic growth of 4 percent per year for the next decade. Brazil is the largest economy in Latin America and is ranked tenth in the world. The construction sector in Brazil is the twelfth largest in the world and is poised to grow at a rate of 5 percent per year during the next 10 years. As a result of the World Cup and Summer Olympics in 2016, the construction industry in Brazil is expected to grow close to 7 percent in the next five years. Brazil’s population is more than 200 million, making it the fifth most
populous country in the world. Population growth is expected to be similar to the region’s growth rate.

Mexico’s population is 115 million, making it the eleventh largest in the world, while its economy is ranked thirteenth globally. Its GDP for the next 10 years is expected to increase 4 percent annually, but the construction sector is expected to grow at a much higher rate of 5–6 percent annually. The infrastructure sector is expected to lead the way in growth, with large projected government investment in building new highways, railroads, airports, ports, and housing. The commercial sector also is expected to be brisk and just under the infrastructure sector growth rate.

The other largest economies—Colombia, Chile, and Peru—are expected to perform well. Argentina, however, will continue to have the lowest economic growth rate as it struggles to control inflation and unemployment.

Eastern Europe
Eastern Europe, Russia, and Turkey will enjoy a healthy economic growth rate even if the population is expected to decline in this region. The average gross domestic product is expected to be in the 5–6 percent rate, and the construction output will be slightly higher. The countries expected to lead the high growth rate in terms of GDP and construction output are Turkey, Russia, and Poland, with an economic growth averaging 6 percent. The low growth rate economies are anticipated to be Hungary and the Czech Republic, with economic growth of about 4 percent annually.

Population growth, on the other hand, is estimated to decline to about fourth-tenths of a percent annually over the next 10 years. The only exception is Turkey, where population growth is expected to be similar or slightly less than the global population growth rate of 1.1 percent. In this region, construction output and growth will be driven largely by the infrastructure sector followed by the commercial and residential sectors. This is particularly true for countries such as Poland, which will continue to benefit from European investment.

CONCLUSION
Today, the construction industry represents about $8 trillion or 14 percent of the total global economic output. In 10 years, it is expected to grow to $13 trillion and be about 18 percent of total economic activity. The fastest growth in the construction industry is anticipated to come from emerging markets, which are expected to dominate growth and will overtake the developed markets in size and importance. The total construction market size in developing countries is expected to increase by more than 100 percent in the next decade, making it close to a $7 trillion market. The fastest regional economic and construction growth will be in Asia Pacific (driven by China and India), followed closely by the Middle East and Latin America. Some countries, such as Nigeria, South Africa, and Angola, also are expected to see significant economic growth, but slightly lower growth than the global average.

On the other hand, developed markets will grow at a much slower rate of about 34 percent over the next 10 years and will be about $6 trillion. Among the developed nations, the growth countries are expected to be the United States, with a growing population, and Australia, with a strong mining sector that will drive overall economic growth. Of the developed countries, Japan is expected to have the slowest growth as its population ages. Growth also will be hampered by high government debt, which will limit infrastructure investment.

As evident by the latest financial crisis reports in Europe and the stalled U.S. economy, the danger of a double-dip global recession is a real possibility, which will have major repercussions on the overall global construction markets. However, in spite of the dark economic clouds, the long-term outlook for the global construction industry remains positive, especially as emerging countries invest in developing their infrastructure, growing their middle class, and benefiting from increasing commodity prices.

Ted Garcia is the Director of International Business at Sloan Valve Company. For more information or to comment on this article, e-mail articles@psdmagazine.org.