News release

Date	Wednesday 29th June 2016
Contact	Rowena Mearley, Global Media Relations, PwC Tel + 1 646 313 0937 E-mail: rowena.j.mearley@us.pwc.com
Pages	3

Global infrastructure investment: short term pain for long term gain as growth projected to inch to 5% PA by 2020

- *5% growth per annum globally projected by 2020, up from 2% currently.*
- *Three scenarios all ultimately point to long term growth and demand for increased infrastructure investment with Asia Pacific investment dominating*
- *Short term fluctuations in demand and delivery mean companies have to examine options on financing and operations*

Global spending growth of 5% per annum on capital projects & infrastructure (CP&I) is projected within four years, doubling the low rates of growth of just 2% expected this year. By 2020, annual global infrastructure spending is forecast to reach $5.3tn, up from an estimated $4.3tn in 2015 (in constant 2014 exchange rates) according to new analysis released by PwC, underlining the long term strength of the sector.

The analysis by Oxford Economics for PwC's capital projects and infrastructure team examines projected spending across seven regions and six key infrastructure sectors. Given the recent volatility in the market, the report also examines two scenarios against the baseline projection - a high growth recovery and a hard landing in the Chinese economy (given China is the world's largest CP&I market).

On the baseline outlook, using current economic projections for economic growth, while current spending is showing signs of CP&I growth, it will remain low - around 2% - for the coming year. It will make a slow but sustained recovery to 2020, when spending will be at 5% or $5.3tn per annum. The largest percentage increases in global CP&I investment between now and 2020 will be in social infrastructure (for example schools and hospitals) and in manufacturing related infrastructure.

Recent slowdowns are a result of the decline in oil and commodity prices, availability of public and private finance, a slowdown in China's growth rate and currency volatility which have all weighed heavily on the sector. Slow growth was felt hardest in the Utilities sector, buffeted by a combination of subsidy cuts in Europe for renewable energy projects; sluggish global economic and trade growth, which reduces demand for electricity; and diminished private sector thirst for capital projects in the face of a negative commodities price environment.

The UK's recent decision to exit the European Union came after the research for this report was finalised. It is too early to comment on the specific UK and global impact of Brexit in 2020, however, in the short term the additional uncertainty and volatility is likely to directly impact the UK capital projects and infrastructure market and indirectly impact the global CP&I market, although the latter is unlikely to be severe.

Richard Abadie, PwC Capital Projects and Infrastructure team, comments:

"Even in these volatile times, there are still opportunities. But sponsors and investors are being very selective on which projects to proceed with, for example ensuring mining and oil and gas projects are profitable at today's depressed commodity prices. Companies will want to remain invested because the long term demand for infrastructure remains strong – particularly given its fundamental link to economic growth prospects."

Peter Raymond, PwC Capital Projects & Infrastructure team, comments:
"This is not a bad news story for the sector by any means. There's money out there – at lower cost - looking for good bankable, viable projects. We're seeing a renewed emphasis on infrastructure's role in economic development and Development Banking is playing an important role in de-risking these projects.

"If this period of volatility has taught the sector anything it will be that they cannot weather future economic storms like we have seen unless new payment structures emerge, and there are tighter controls and planning around the lifecycle of a project's delivery and financing."

The research underlines the contagion effect of oil and commodity prices, and China's economic conditions on the sector's prospects as a whole. The extraction sector is in for a difficult time under the upside or downside forecasts. Even in the global upturn story line, the slower rate of increase in oil prices holds back infrastructure investment.

Scenario 1: China Hard Landing (see notes)

- Outlook: In the China hard landing scenario, spending does not actually fall between 2015 and 2020 but rather it is lower in 2020 versus the baseline level
- **Sector impacts**: Compared to the baseline, industry infrastructure spending would drop about 4% with extraction taking the worst hit because weakness in Chinese infrastructure and manufacturing development would significantly slash demand for oil, gas, steel and other minerals.. Transport and utilities account for about half of infrastructure spending in Asia Pacific, and these sectors would also fare poorly if conditions in China worsen.
- **Regional impacts**: Over 60% of the decline in infrastructure spending would occur in Asia Pacific. Latin America, the Middle East and countries like Russia, which depend on oil production and other extraction industries to propel their infrastructure-related exports and public or private development projects would also be affected. Western Europe would be least harmed since commodities trades are a relatively small part of the region's global economic activities.

Scenario 1: Upside Scenario (see notes)

- Outlook: In this analysis, global infrastructure investment between 2015 and 2020 would hit $28.8 trillion, about $1.7 trillion more than the outcome of a Chinese hard landing and a full $600 billion more than the baseline.
- **Regional impacts**: Western Europe and Asia Pacific would gain the most, with over $350bn increased spending in Asia Pacific alone, due to enhanced demands for the region's exports from Western economies and greater capital influx as the appetite for investing in emerging markets grows. Commodity-dependent regions, particularly the Middle East, would benefit the least.
- **Sector impacts**: Increased spending by both the private and public sectors would engineer broad-based improvements in CP&I expenditures. Utilities and transport would lead the way, reflecting greater industrial activity and renewed interest in building highways, airports and bridges.

Recent analysis by PwC showed that, while there are a number of other factors which influence labour productivity, including skills and technology, there is a strong positive correlation between the quality of physical infrastructure and labour productivity in the G7 and the E7.

Notes

1. Sector and regional tables, and a full report are available on request.
2. The research and modelling took place during March 2016.
3. China scenario: Under the China hard landing scenario, Oxford Economics assumed an economic environment in which the Chinese Yuan depreciates by as much as 10 percent, housing sales slump sharply, consumers postpone new purchases and wage growth declines. Moreover, the pressure on developers' cash flow, under this scenario, would trigger a renewed decline in house prices and a sharp fall in housing construction. Domestic and external confidence would be hammered, resulting in a scaling back of private investment. Capital projects and infrastructure spending growth falls to almost zero in 2016 and picks up only slightly in 2017.
4. Upside Scenario: Under this scenario, in some parts of the world, governments would pursue more expansionary fiscal policies. And with greater confidence that bond markets will remain accommodative, countries with fiscal flexibility would increase public investment in infrastructure projects. With renewed economic optimism, oil production rises more than expected under normal conditions, which in turn leads to a slightly slower increase in oil prices.
5. Infrastructure payback: Research by PwC found that a lack of transport infrastructure can add 20 days per year to an average commute in a worst case scenario - Cities of Opportunity report 2014.
6. PwC Economic Outlook (May) examined the correlation between infrastructure investment and productivity. **https://www.pwc.com/gx/en/issues/economy/global-economy-watch/prioritise-public-infrastructure-investments.html**

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.