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Cement market in Central Europe to grow slightly in 2010

Source: **Report "Cement market in Central European countries 2010"**

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Both the construction and cement markets in the Central European countries have been hit hard by the global downturn. The combined cement consumption in six countries of the region – Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia – is set to fall from over 44 million tonnes last year to less than 37 million in 2009, and will increase only slightly in 2010.

On the cement market in Bulgaria this year, the general market weakness has been compounded by substantial imports of cheap cement from Turkey, which, according to the cement producers, should have been banned. Sales of cement declined by 30% in H1 amid a downturn, with most demand still coming from housing construction. Exports via the Black Sea were brought to a standstill. Producers are trying to cope with the situation by suspending clinker furnaces, optimising costs and downsizing. They are also keeping prices unchanged, despite a fall in demand. No improvement is expected on the market before 2011.

In the Czech Republic, cement production fell by one-quarter during the first half of the year. Consumption also declined by 25%, partially as a result of the harsh winter. In addition, the nature of construction projects has been changing, with a greater number of projects which require less cement being implemented. The volume of exports shrank even more, by one-third, and no imports were registered in H1. Although production volumes are expected to shrink by 15% in 2009, producers are tending to keep prices unchanged.

In 2008, consumption of cement was stable in Hungary, but the market is expected to shrink by 3-4% this year. Cement prices rose by 3.5% in the first half of the year. Major developments on the cement market in the country include the sale of the Hungarian operations of Cemex and Holcim's measures to prepare for next year. In 2010 minimal growth is expected on the market, with major projects including motorways and a logistics hub in northeast Hungary.

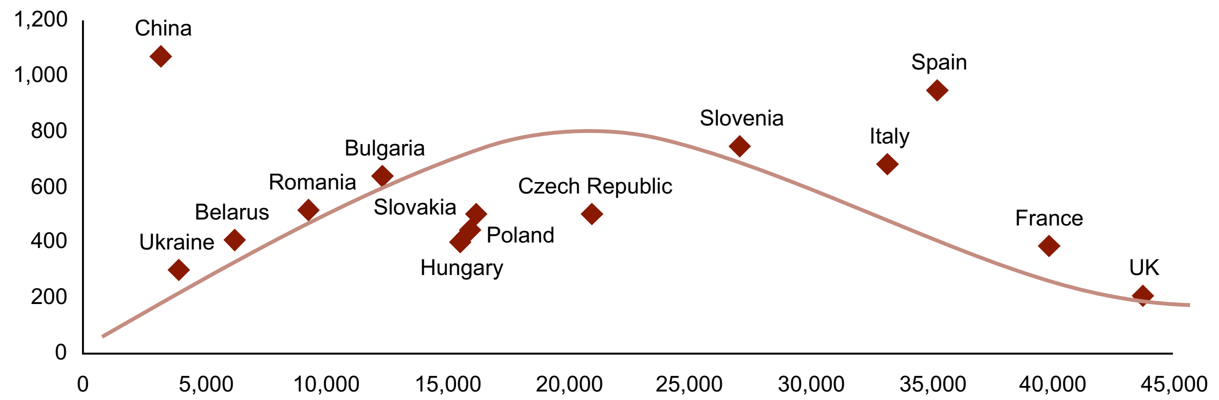
In Poland, both production and consumption increased by 1-2% in 2008, whereas so far in 2009 production and sales have slumped by more than 10%. However, the rate of decline is expected to slow. In 2009 as a whole consumption is expected to fall by 3% in 2009 and to rise again by 4% in 2010 and 8% in 2011. Major projects include the construction of the A1, A2 and A3 motorways and the S3 and S7 expressways.

This year liquidity bottlenecks which affected customers led to a further slowdown in demand for building materials in Romania. There has, so far, been a 25% reduction in demand for cement in 2009, and no improvement was seen in H2. Cement prices rose slightly in 2009, a cost-driven change, to €114 per ton in H1. The depreciation of the leu against the euro has affected producers, who started to reduce costs and have postponed a number of investments. However, Romania is still deemed attractive in the medium term, and the recovery of the market depends upon the launch of large infrastructure projects.

In Slovakia, cement consumption grew by 8% in both 2007 and 2008, and cement production has increased by 8% in recent years. About 40% of production is exported, mostly to Hungary, Austria and the Czech Republic. So far in 2009, cement prices have remained unchanged in Slovakia. Infrastructure projects are expected to be the key driver of cement demand in the country, whereas home construction and improvement are also relatively strong. On the other hand, commercial and industrial projects are underperforming.

The six countries presented are emerging markets with increasing per capita income and very substantial needs in the areas of housing and transport infrastructure. They had started to catch up with the more developed nations in these areas, but this process was disrupted by the crisis. It will, however, continue when the recovery starts, not least because most of these countries have received substantial EU funds for infrastructure development, although they have yet to learn how to use them effectively. Peak cement consumption levels therefore still lie ahead.

Per capita GDP and cement consumption in selected countries, 2008



Source: Lafarge, PMR Publications, 2009

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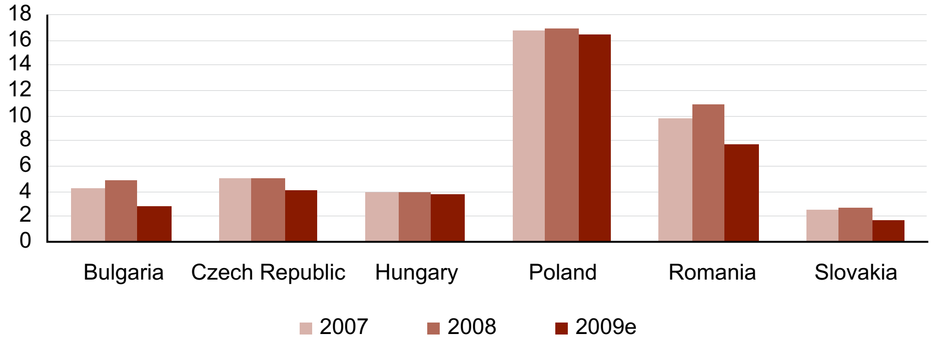
With both production and consumption falling by almost 20% on average in these countries, they have suffered reverses but may be expected to start moving forward again soon. However, rampant booms are a thing of the past.

Cement consumption in CE countries (million tonnes), 2007-2009



Source: statistics offices, PMR Publications, 2009

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The potential of the region in the next few years will be based on the EU-funded infrastructure projects, led by motorway construction. By 2013, almost 3,000 km of motorways should be built, over 900 km in Poland alone. Assuming average cement consumption of 4,000 tons per km, 12 million tons will be needed for motorways over the next three years. However, other roads and other civil engineering structures, such as bridges and flyovers[1] have to be built, to say nothing of the proposed residential and non-residential projects. As has been already mentioned, the condition is that the countries have to start making full use of the European funds.

The article was based on the upcoming "Cement market in Central European countries 2010 – Development forecasts for 2010-2012" report to be published by PMR Publications in early 2010.

[1] In Poland alone over 1,550 bridges and flyovers to be built by 2013, according to the Road construction in Poland 2009 report by PMR Publications.

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