



83rd EUROCONSTRUCT Conference

9th June 2017, Amsterdam

PRESS RELEASE

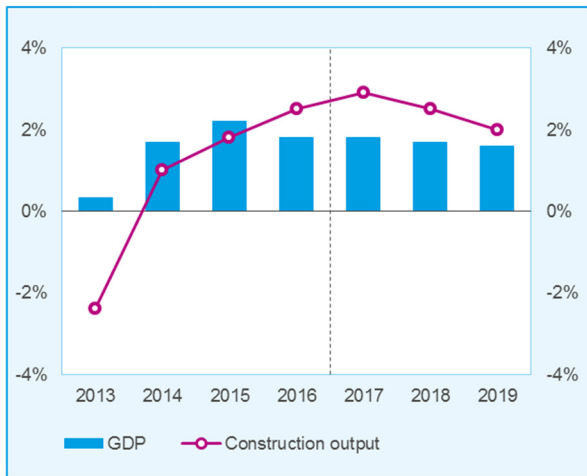
OVERVIEW

A GDP growth of 1.5% to 2% per annum in the period 2017-2019 is projected for the 19 Euroconstruct countries, almost unchanged from the previous projection in November 2016 (Barcelona). European economy is set to follow a moderate growth path, stimulated by still relatively low oil prices, the weaker euro exchange rate and the ECB's stimulus policy (quantitative easing). In most countries domestic consumer demand is increasing, stimulated by declining unemployment. Investment has started to pick up, particularly since households and companies can still secure inexpensive financing, and foreign demand is developing favourably. However, the pace of recovery remains relatively moderate due to the sluggish implementation of reforms as well as long-standing weak growth trends. In general, the European economic growth potential is lower than it was before the crisis, due to the population ageing and declining productivity growth.

The recovery of the European economy has boosted construction output growth. In 2016 construction output expanded by 2.5%, 0.5%-point stronger than was expected half a year ago. The volume of construction output is forecast to increase by 2.9% this year and by 2.4% in 2018, both above the previous projections in Barcelona (+2.1% in 2017 and +2.2% in 2018). Thanks to the stronger economic upswing than expected half a year ago, very strong improvement in consumer confidence and the continuing loose monetary policy, construction demand develops stronger than was expected, resulting in an expansion of the construction output by 8% in 2016-2018, compared to the forecast of 6.5% in Barcelona. Thereafter the upturn is expected to moderate in 2019 (+2%), which is slightly below the Barcelona figure (+2.1%).

GDP vs. Construction output in EC-countries

Year to year change in %



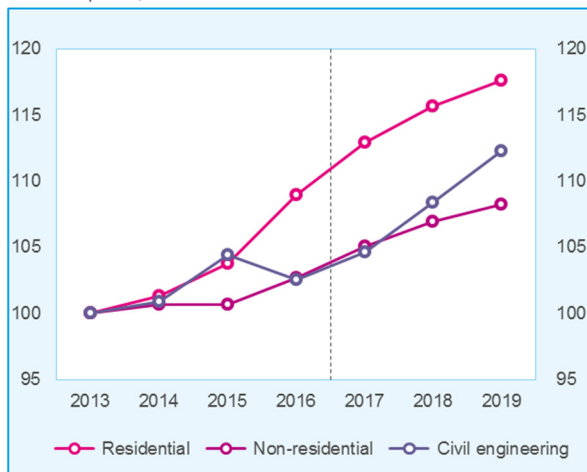
Source: Euroconstruct (83rd Conference)

PERFORMANCE OF THE MAIN SEGMENTS

Residential construction has expanded by 5% in 2016. In the coming years the growth will become progressively less strong, with an expansion by 3.7% in 2017, 2.3% in 2018 and 1.7% in 2019. The output in the sector is boosted by demographic trends, increase in household income and low mortgage rates. New residential construction expanded by 8.8% in 2016, and this year growth is also expected to be very strong (+6.8%). A significant slowdown will take place in 2018 and 2019. Residential renovation and maintenance grows steadily by about 1.5% per year. It will be the first sector where the output will reach and exceed pre-crisis levels, which is projected to happen already this year.

Construction output by segment

Constant prices, 2013=100



Source: Euroconstruct (83rd Conference)

Non-residential construction grows modestly in the coming years, by 2.3% in 2017, 1.8% in 2018 and 1.2% in 2019. The recovery in new construction began only last year, later than in other sectors. After the initial growth of 2.5% in 2016 and 2.8% in 2017, the expansion becomes much less dynamic (1.9% in 2018 and 1.0% in 2019). These growth rates are very

modest given the extent of the losses during the crisis. Despite the positive impulse from the growth of consumer demand and relatively high corporate profits, the expansion in the sector is hindered in many countries by conditions for external financing and by the financial situation of public authorities. The subsectors where public financing plays an important role – construction of educational and miscellaneous buildings – lag behind other sectors, with average growth rates in 2017-2019 of 1% and 1.4% respectively. Interestingly, the highest growth rates in the coming years (3% per annum on average) will also be reached in a sector with a significant public involvement – construction of health buildings. The subsectors of new construction where the financing mainly comes from private parties increase in the coming years at remarkably similar rates of 2% per annum on average. Renovation and maintenance expands by around 1.5% each year.

Civil engineering output, after a contraction by 1.8% in 2016, will increase by 2% this year and by 3.6% in both 2018 and 2019. The growth rates in the Western European region are approximately 0.5%-point lower than in the EUROCONSTRUCT area as a whole, while in the CEE countries civil engineering will expand forcefully (by 10% per year on average), largely due to the new round of EU structural funds. The acceleration of the growth in 2018 and 2019 compared to 2017 is mostly brought about by the strongly improving dynamics in Spain and the UK. Road construction is the most dynamic sector in the coming three years, increasing by 5% per annum on average. The growth of civil engineering is facilitated by the condition of the infrastructure network, by EU-, national and regional funds, by economic growth and by the environmental protection goals. Budget imbalances in many countries and general financing conditions prevent civil engineering from expanding even stronger.

OVERVIEW BY COUNTRIES

Hungarian construction is the stellar performer in the period 2017-2019, growing by 14.9% per year on average. In Ireland, an expansion by 7.7% on average in the coming three years will follow an even stronger growth by more than 10% yearly in 2014-2016. Construction activity will also expand strongly in 2017-2019 in Poland (5.5% on average), Czech Republic (4.3%) and Portugal (4.1%). The strong growth in CEE-countries follows a rather significant drop in 2016 and is driven for by a new round of the EU structural fund in combination with strong demand for housing and, in Hungary, new government measures stimulating new residential construction. Ireland and Portugal are recovering from a very deep fall in construction output. Despite the strong increase, construction output in Ireland will in 2019 still lie 60% under the pre-crisis level, and in Portugal 40%.

These figures indicate that in the aftermath of the financial crisis, growth rates as such do not necessarily give a correct impression of the health of an individual construction market. This health can better be judged by a combination of the current performance relative to the historic levels and the future growth prospects. From this perspective three strong performers can be identified: Poland, Norway and Sweden. The construction output in these countries in 2016 is around 20% above the pre-crisis level, and it will increase strongly in the coming years (5.5% on average in Poland, 3.9% in Norway and 3.5% in Sweden). The other countries with output above or close to the pre-crisis level are showing average growth rates of 2% at most, while all countries which still have catching up to do expand by more than 2% per year, but none of them reaches the pre-crisis level in the coming three years.

Total Construction Output

(% change
in real
terms)

Country	2013	2014	2015	2016	Forecasts		Outlook
					2017	2018	2019
Austria	-0.9	-0.1	-0.6	1.3	1.6	1.4	1.1
Belgium	-0.9	1.5	1.7	3.3	1.1	1.5	2.0
Denmark	-0.1	3.2	3.7	4.5	2.2	2.7	3.2
Finland	-3.3	-2.2	2.3	7.6	1.7	-0.3	-0.1
France	-1.3	-6.0	-2.0	3.3	4.4	3.8	2.5
Germany	-0.6	1.8	0.4	2.4	2.0	0.4	-0.4
Ireland	1.8	9.9	8.5	12.5	7.0	6.8	9.4
Italy	-3.4	-2.2	0.8	1.9	2.3	2.2	2.1
Netherlands	-3.5	0.5	7.6	6.8	4.1	3.9	3.3
Norway	2.3	1.4	1.4	6.6	5.6	3.6	2.6
Portugal	-14.5	-1.0	3.5	-1.5	3.0	4.5	5.0
Spain	-18.7	-1.7	2.9	1.8	3.0	4.1	3.6
Sweden	0.9	8.6	5.3	7.1	8.1	2.9	-0.3
Switzerland	3.4	3.5	2.0	0.1	1.2	2.8	2.1
United Kingdom	1.6	8.6	4.2	2.7	1.3	1.3	1.7
Western Europe (EC-15)	-2.3	0.8	1.6	3.1	2.8	2.2	1.7
Czech Republic	-7.0	4.1	7.1	-5.8	0.0	4.9	8.3
Hungary	6.0	8.4	2.9	-20.1	19.7	16.0	9.3
Poland	-4.3	4.9	4.0	-4.7	4.9	6.5	5.0
Slovak Republic	-5.2	-3.5	18.5	-11.4	4.0	1.7	0.4
Eastern Europe (EC-4)	-3.9	4.6	5.4	-7.2	5.3	7.0	6.0
Euroconstruct Countries (EC-19)	-2.4	1.0	1.8	2.5	2.9	2.5	2.0

Source: Euroconstruct, June 2017

For further information regarding the 83rd EUROCONSTRUCT Conference and data please contact the conference organisers and the Dutch member of EUROCONSTRUCT:

EIB - Economic Institute for Construction and Housing

Koninginneweg 20
1075 CX Amsterdam
Tel +31 20 205 16 00
Email: eib@eib.nl