Rakennusteollisuus

The economy is recovering towards slow growth - the bill for corona handed to construction

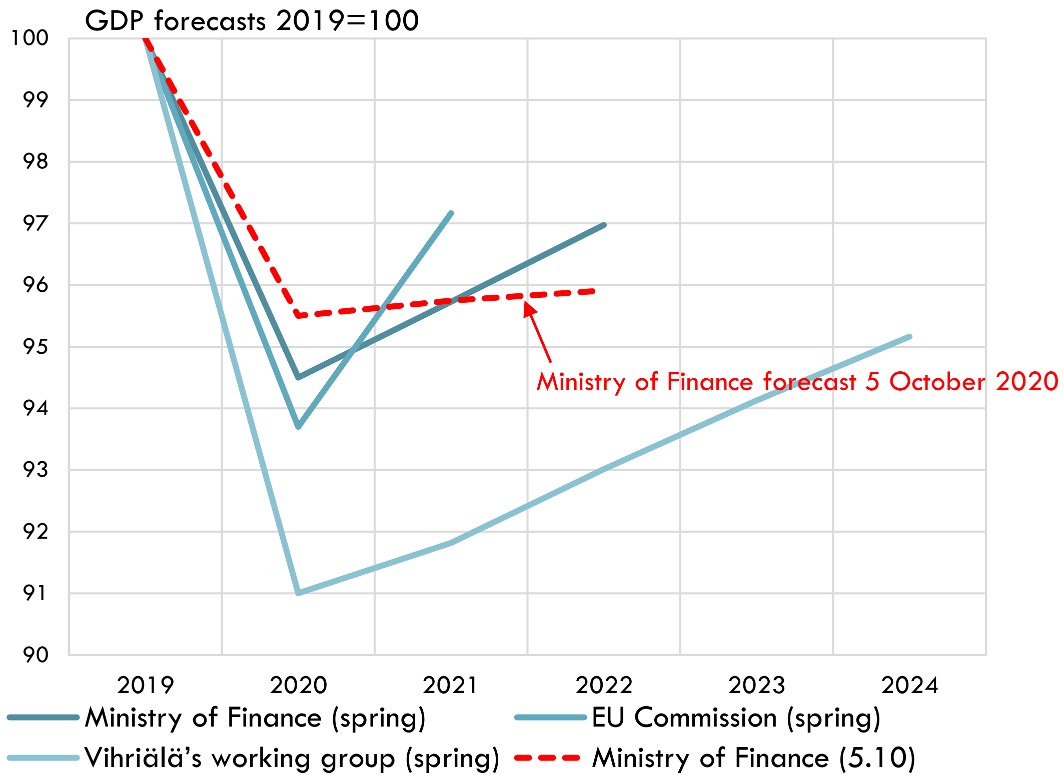
Roads are diverging

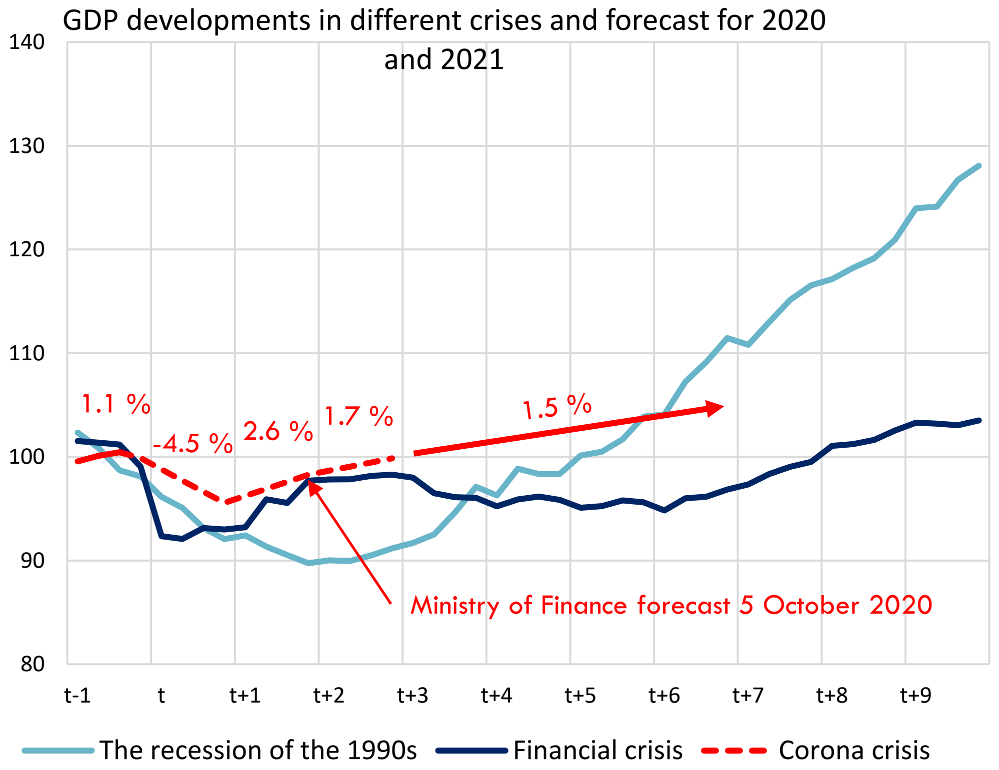
25/11/2020

Construction outlook, principal economist Jouni Vihmo

Repairing the Finnish economy is a marathon

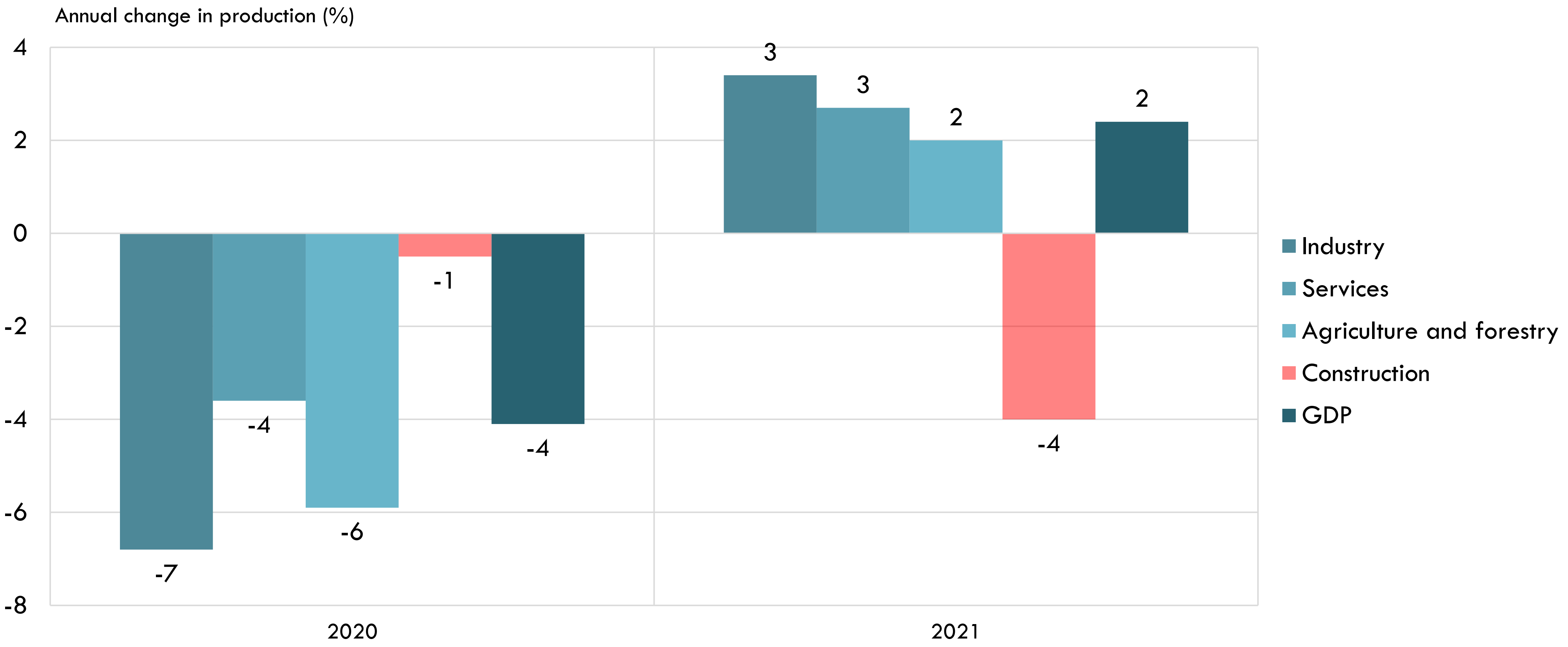
A recovery spurt in a few quarters will not solve anything





Roads are diverging

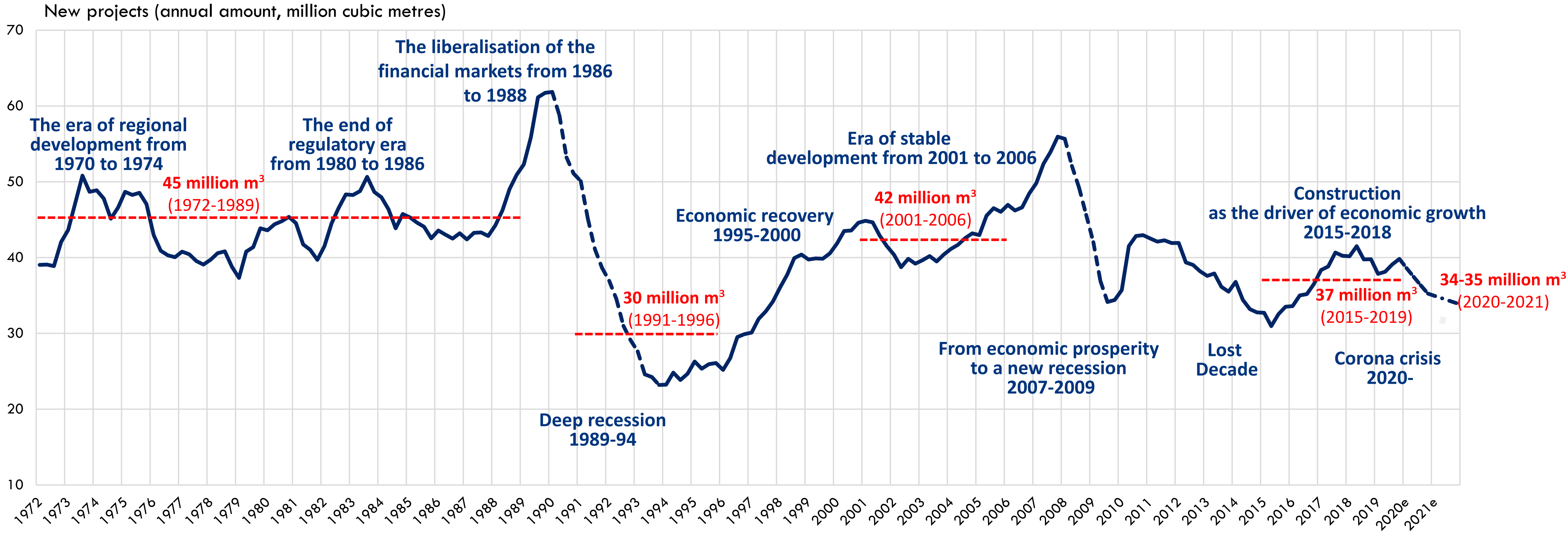
Economic recovery led by services and industry – construction is slowing down the recovery of the economy and employment



Source: Statistics Finland, Ministry of Finance (October 2020), Confederation of Finnish Construction Industries RT

Finland’s reconstruction will slow down

The risk of long-term deceleration in construction should be stopped



Uncertainty about demand will continue at least in the first half of next year

10 Good +

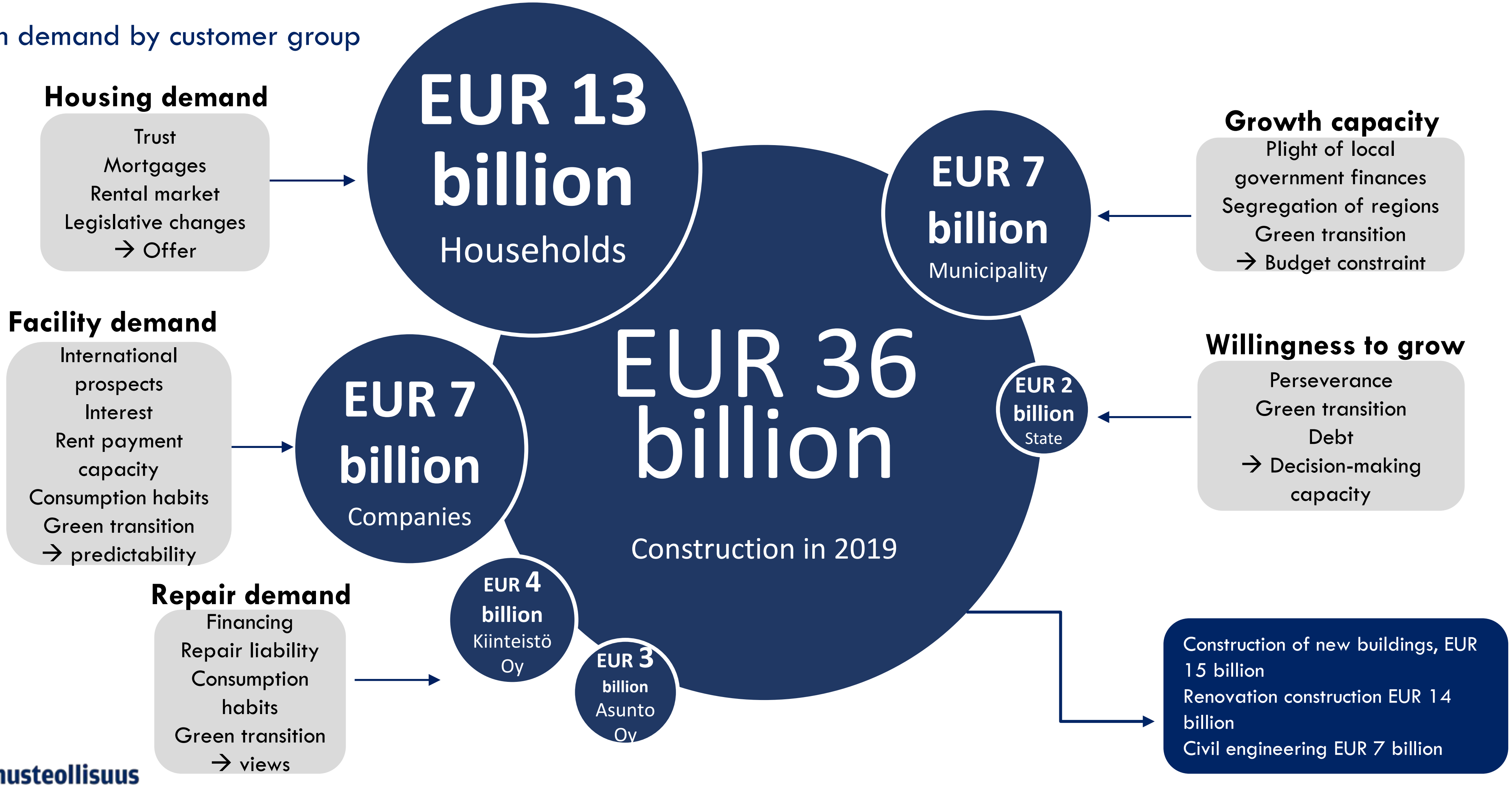
- Finland's economy will grow next year
- Good level of construction in the current year will carry the sector for some time
- Consumer housing purchases and renovation demand still high
- The significance of home ownership increasing and more square metres are wanted
- No drop or bubble in housing prices
- Interest rates will remain low for a long time
- International interest in Finland continues
- Building costs continue to rise slowly
- With EU stimulus money, it will be possible to reverse the repair debt to achieve sustainable growth
- Urbanisation continues rapidly

10 Bad –

- The outlook of the Finnish economy independent of Corona is weak
- International uncertainty will continue for a long time and will slow down investments
- The second wave of Corona will weigh down the service sector
- Changes in consumption behaviour cause uncertainty in the premises market
- Rampant money-printing is causing bloated assets
- Bank regulation and construction funding is tightening
- Legislative amendments increase uncertainty in the housing market
- The weak economic situation in municipalities will slow down development and investments
- A tight atmosphere in politics and the labour market
- Insufficient employment measures

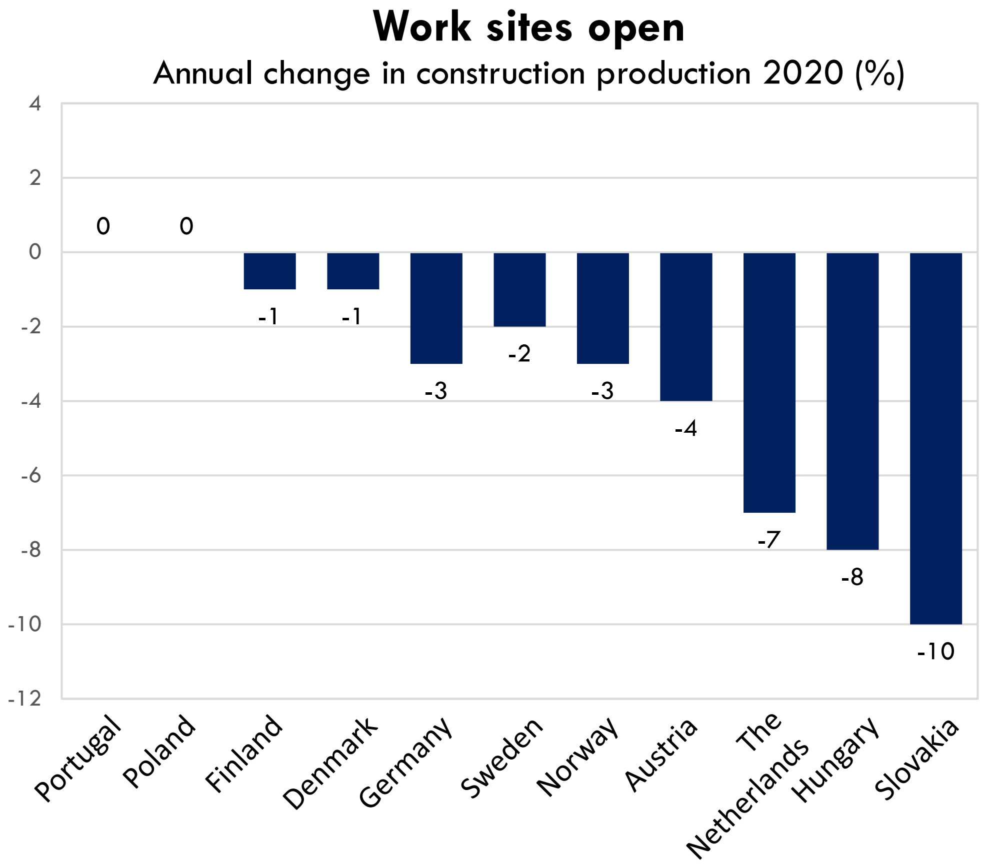
Uncertainty about demand in construction continues

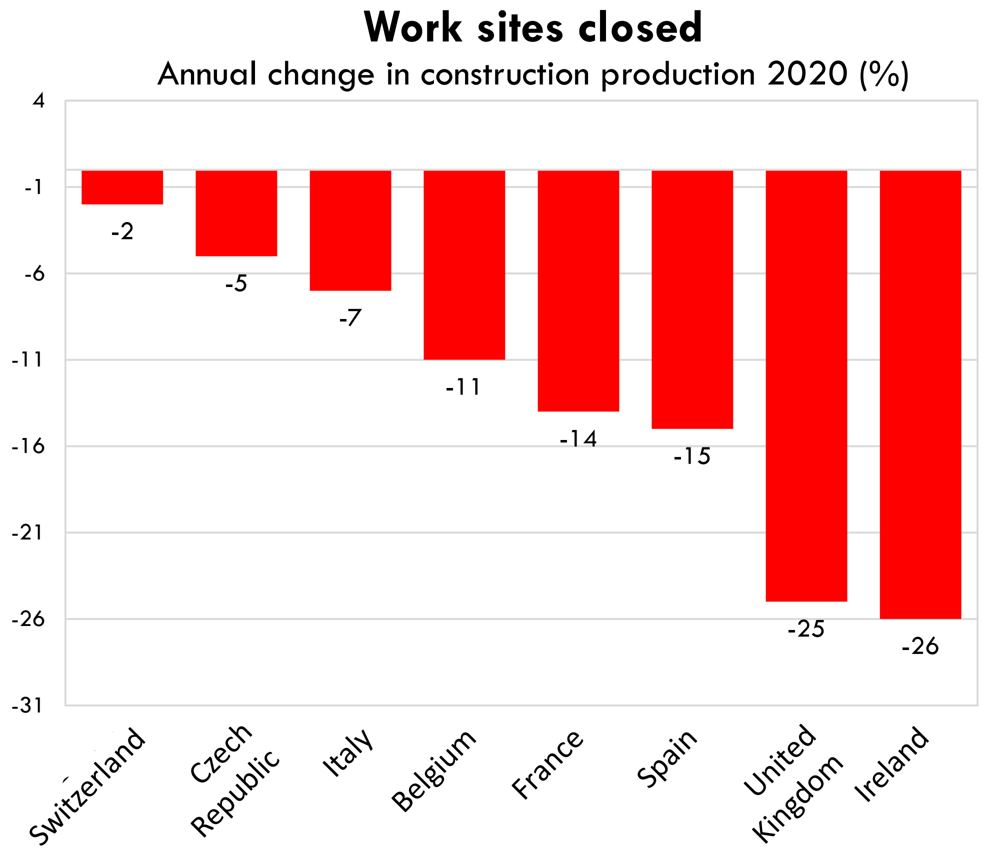
Construction demand by customer group



Great performance achieved

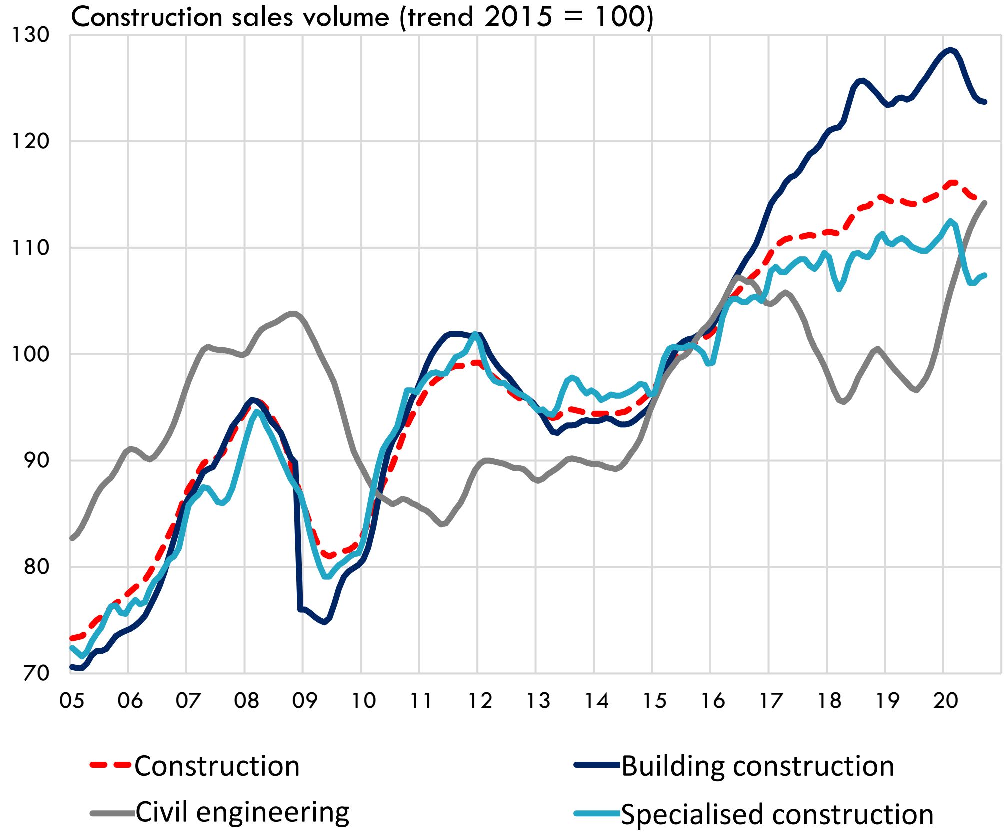
4% growth in construction in Europe driven by infrastructure – no boost from construction on the Finnish economy

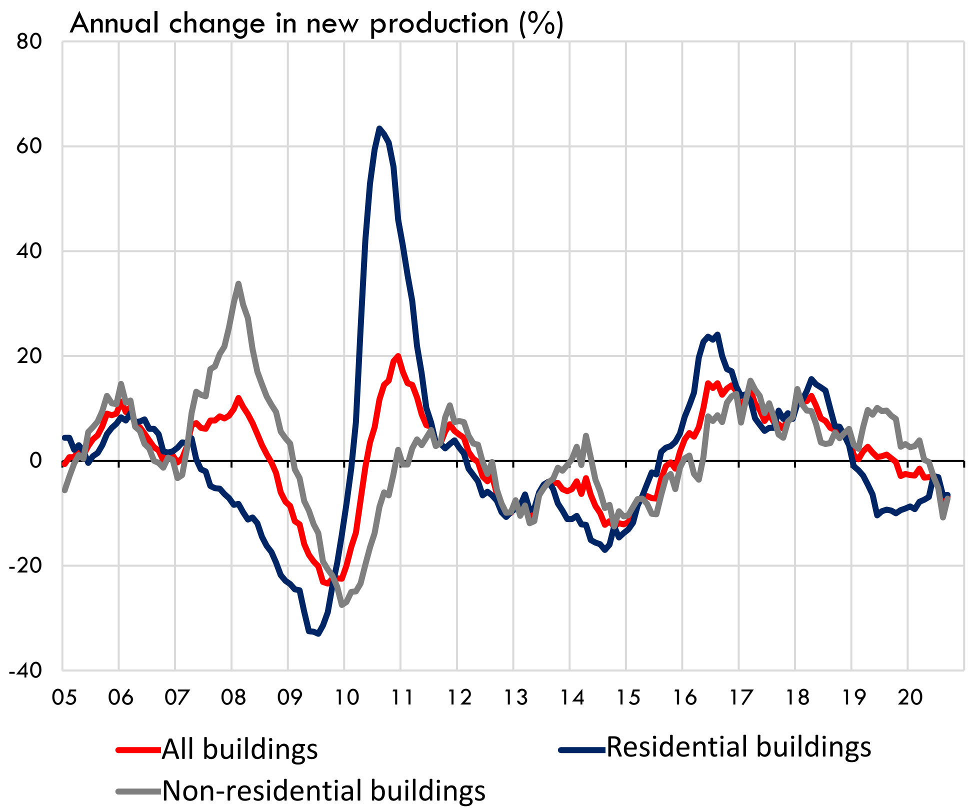




Source: Euroconstruct, construction industry (Finnish forecast)

Good level at the start of the year inherited from last year – no growth in new production





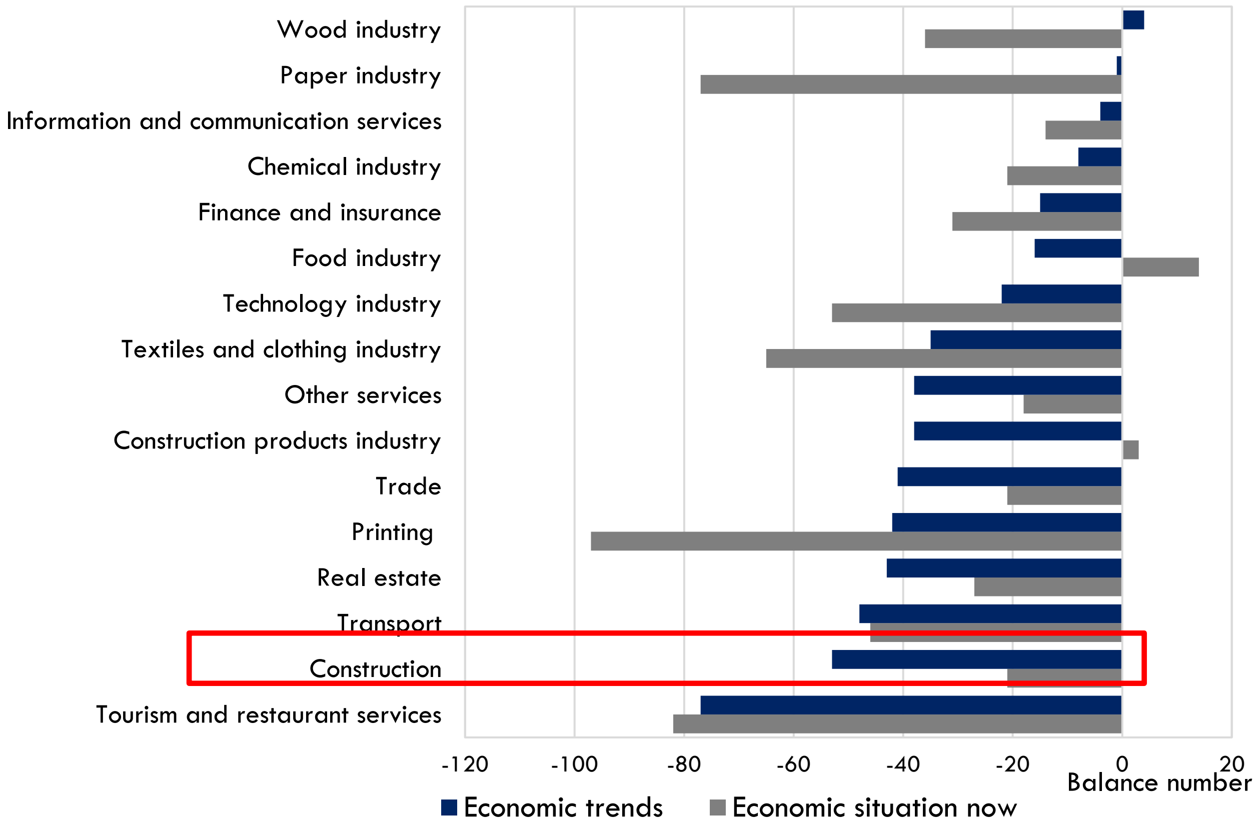
Rakennusteollisuus

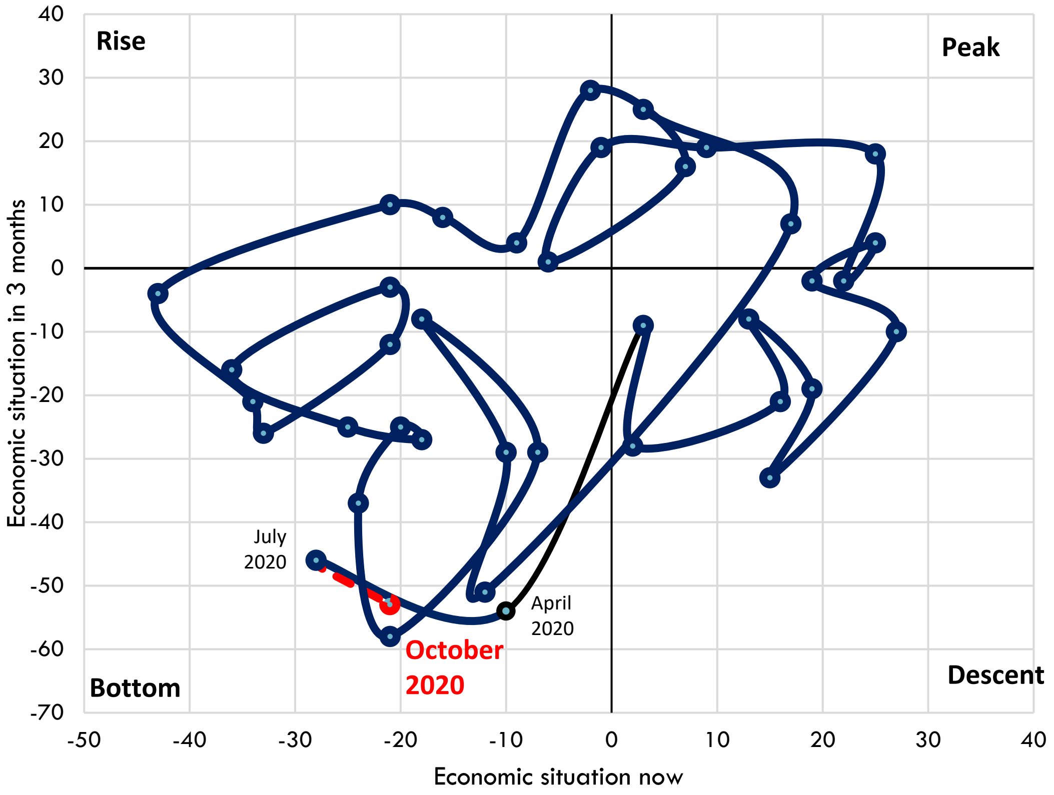
The large number of projects launched before the crisis, the sites remaining open and extensive stimulus measures targeted at the entire economy have supported construction

Current year better than anticipated

The scenarios darkened again to the low level of the spring

Production has declined more since the summer

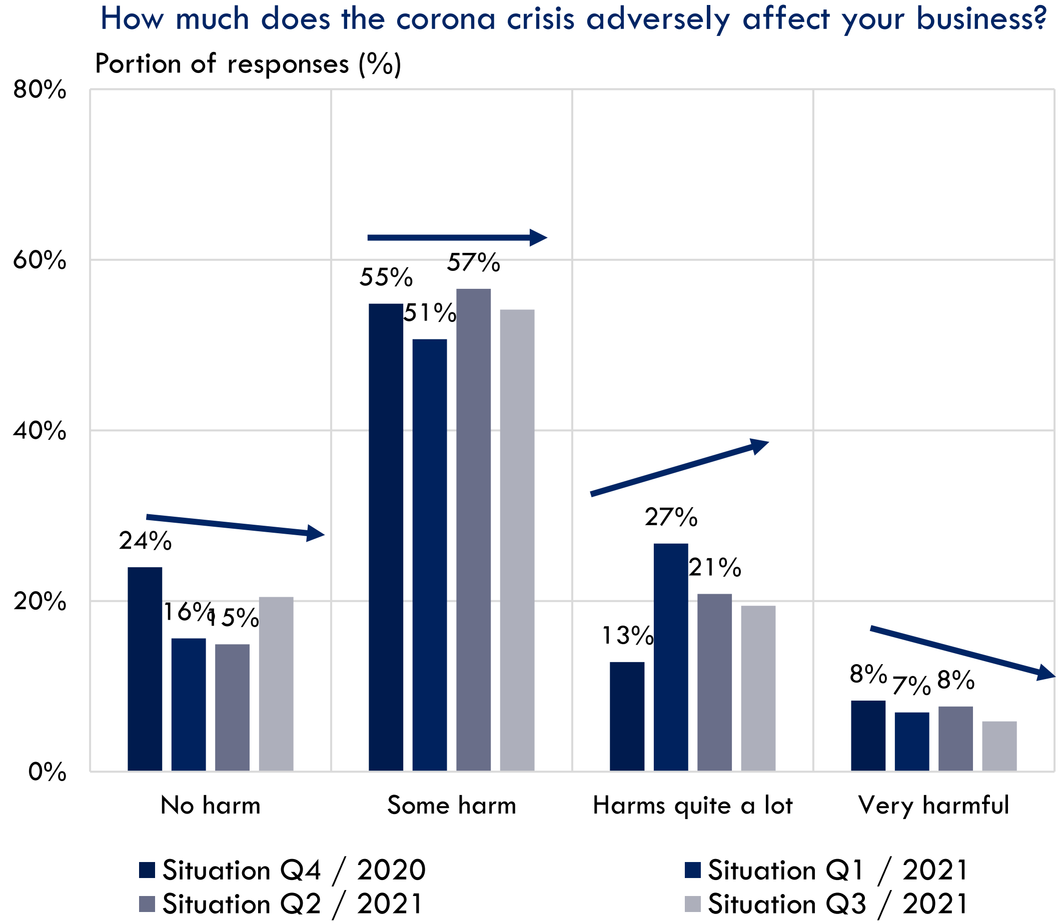


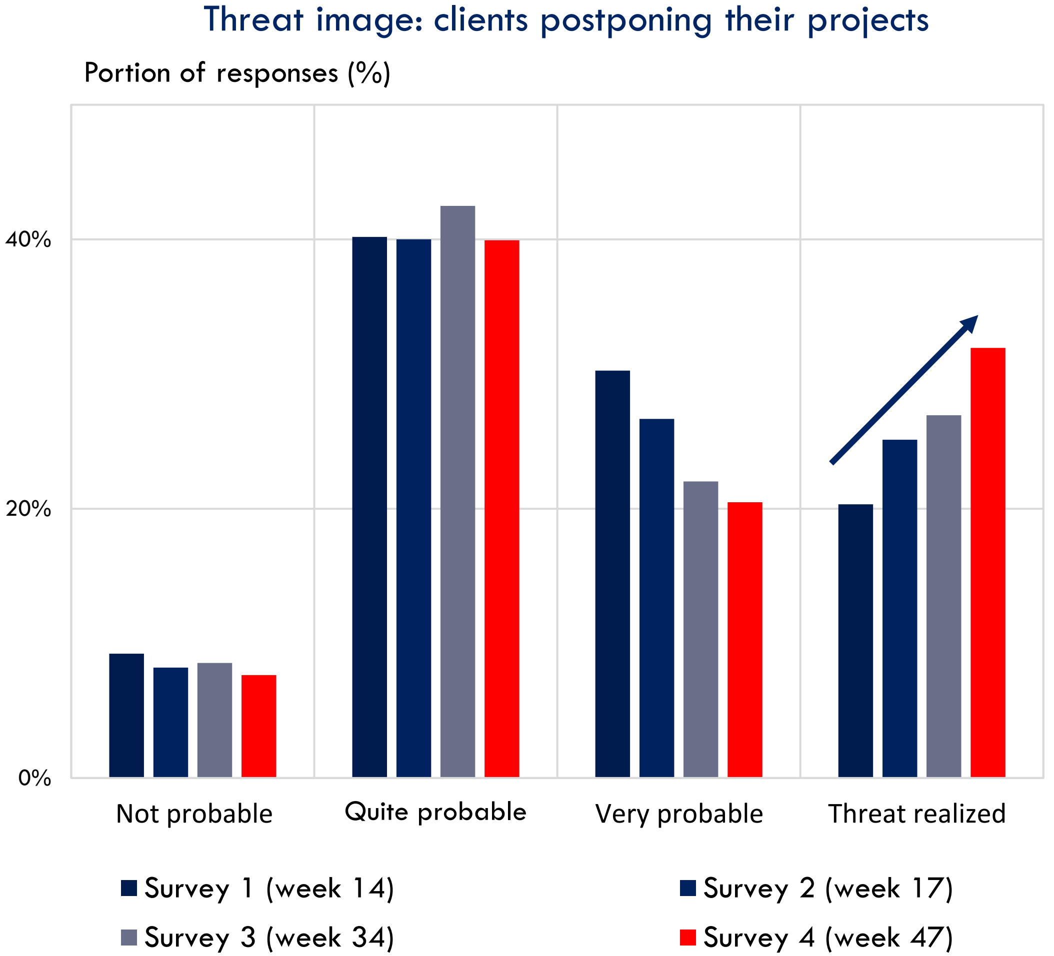


Source: Confederation of Finnish Industries (EK) Business indicators (October 2020, Confederation of Finnish Construction Industries RT

The consequences of the corona crisis are displayed with a delay

Clients are postponing their projects

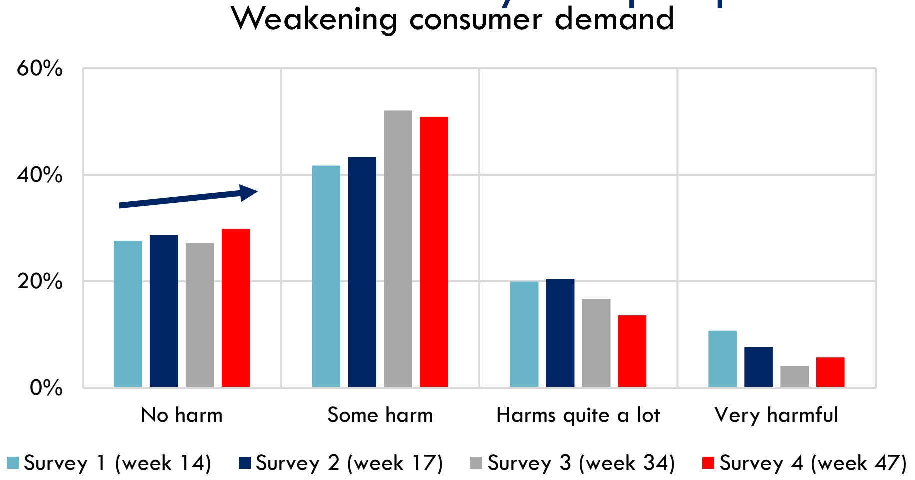


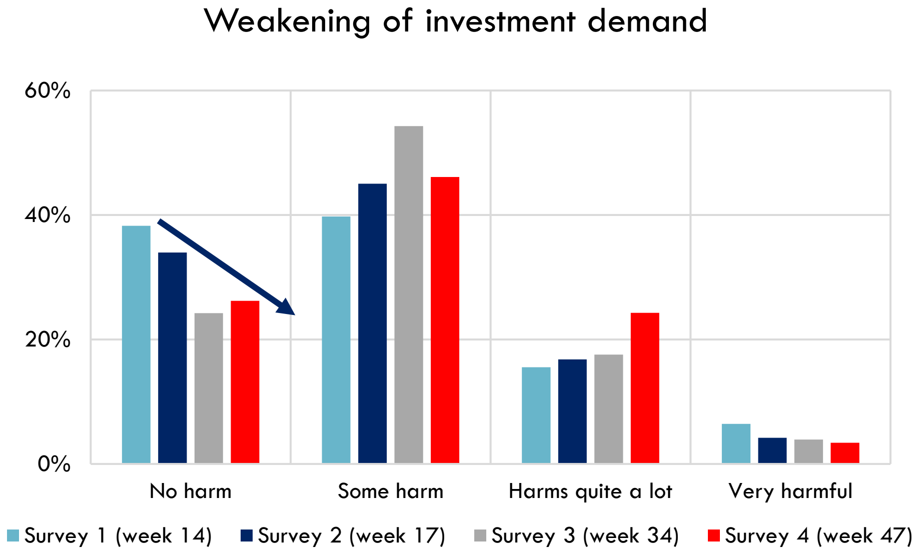


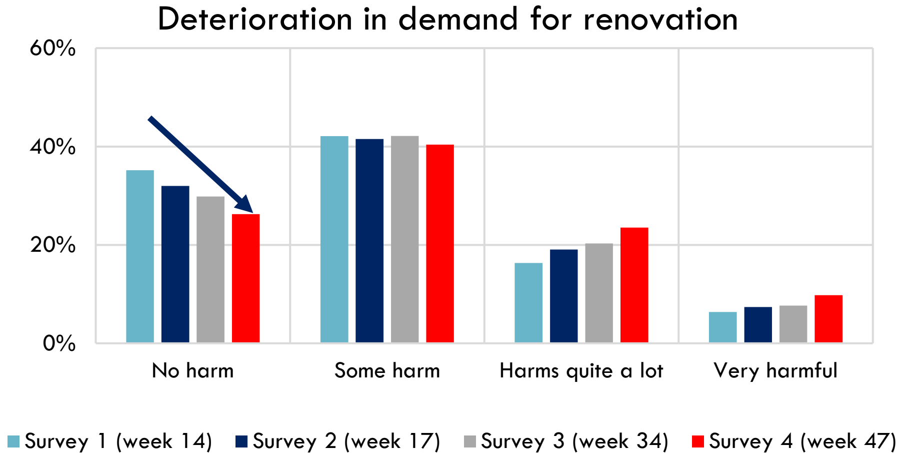
Source: Confederation of Finnish Construction Industries RT Corona survey IV (November 2020)

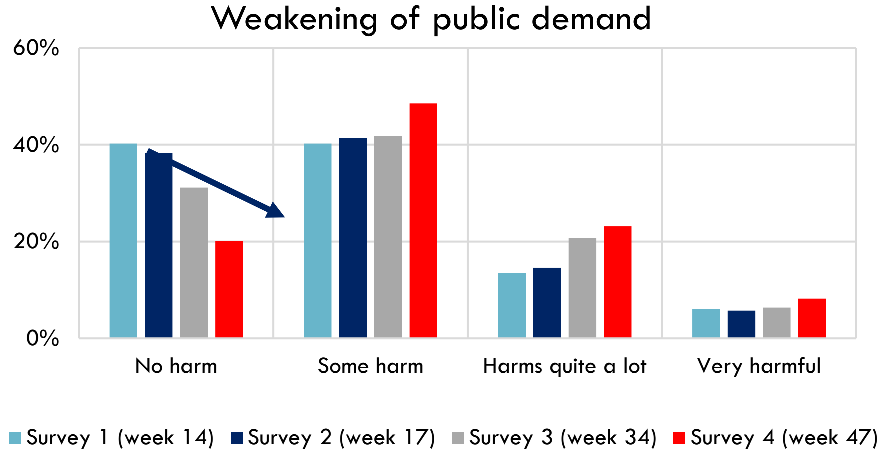
Consumers carry – other demand decreases

Assess which factors currently hamper production



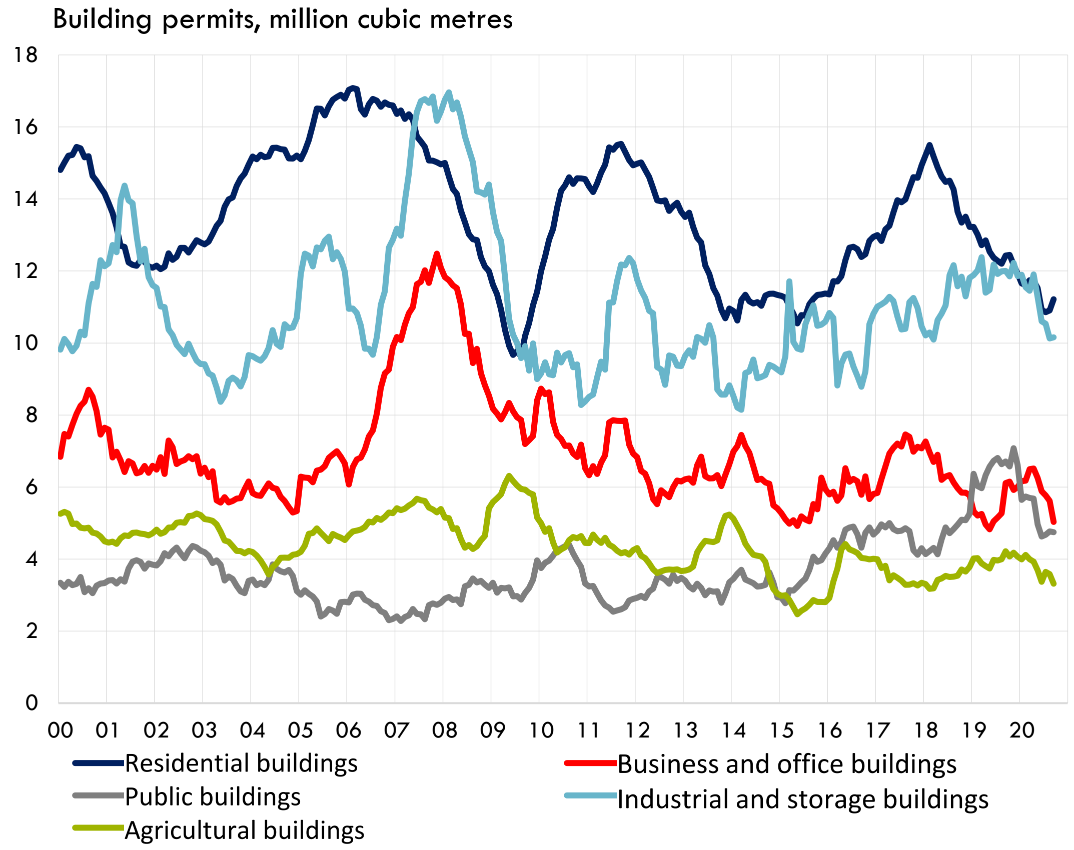


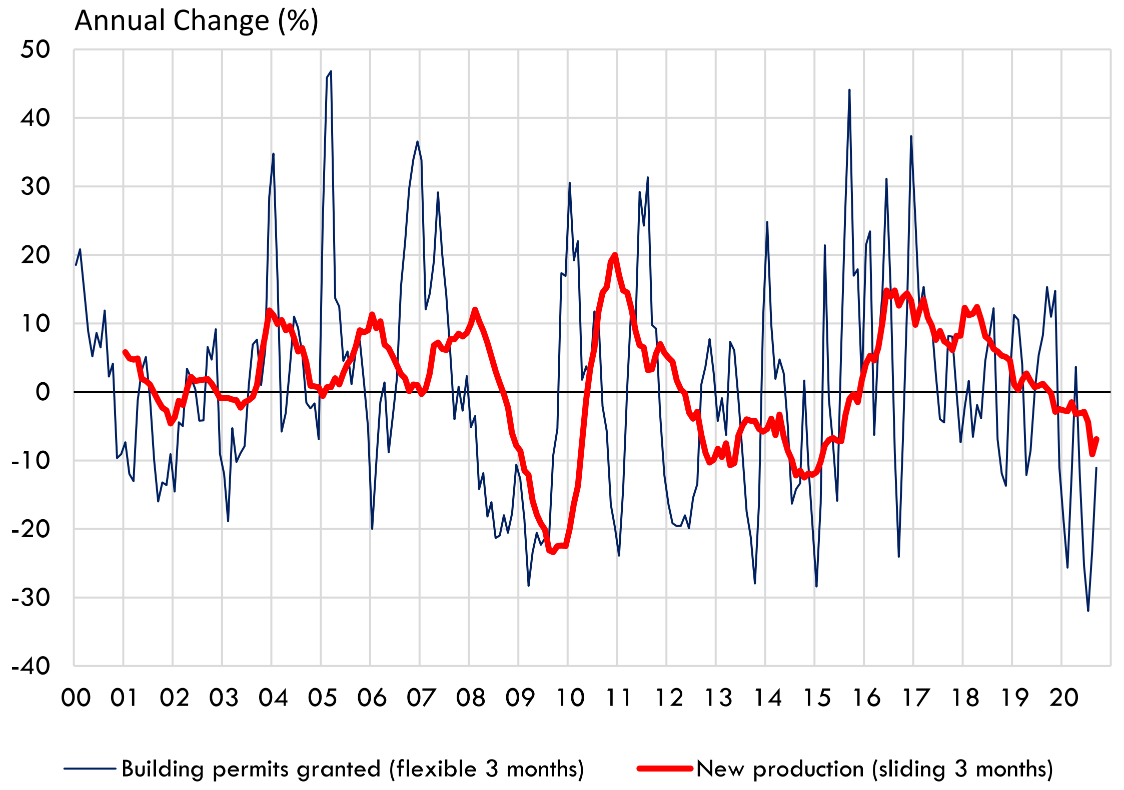




Source: Confederation of Finnish Construction Industries RT Corona survey IV (November 2020)

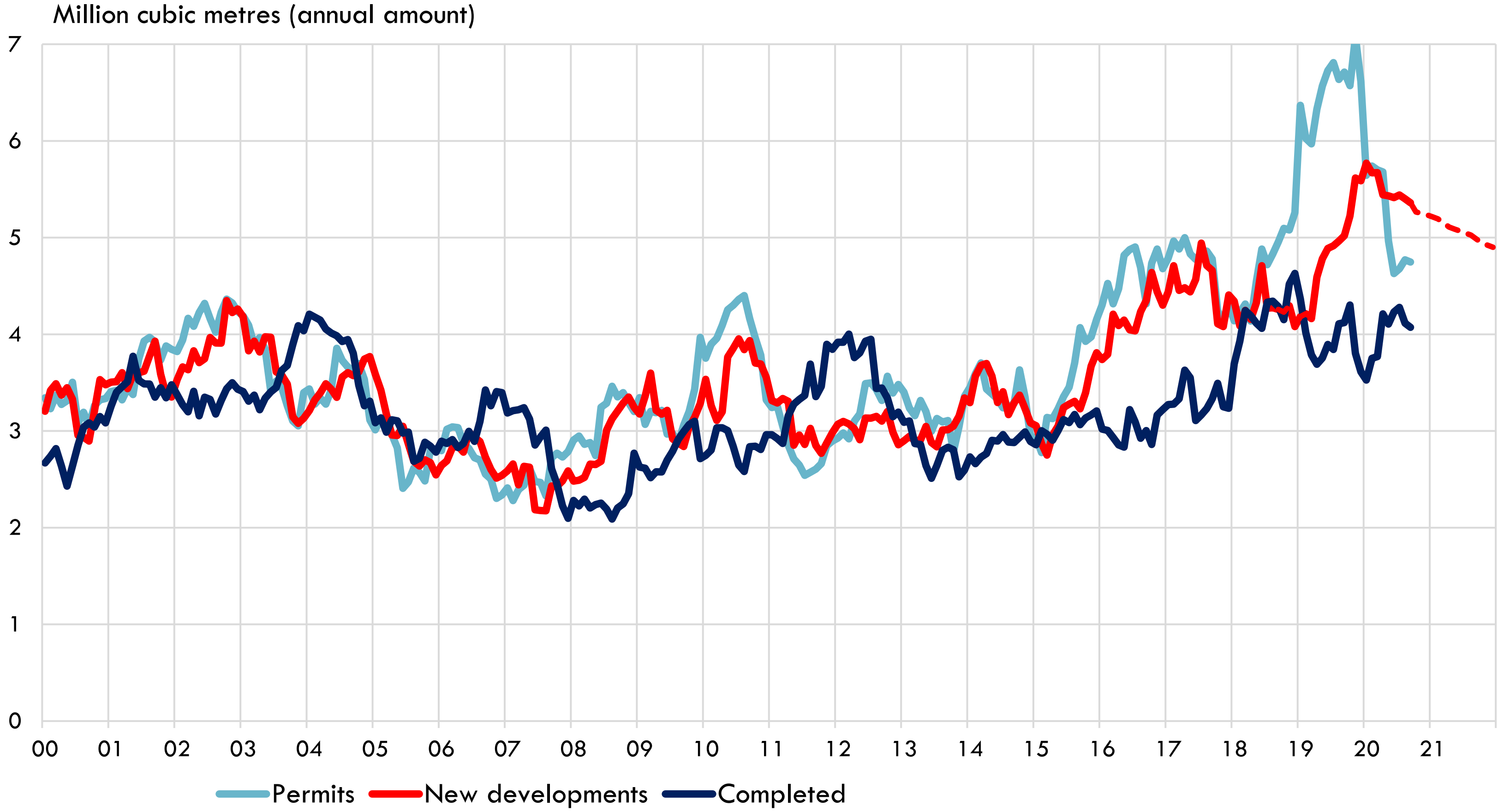
Decline in permits for all construction types - New production will remain in the negative next year





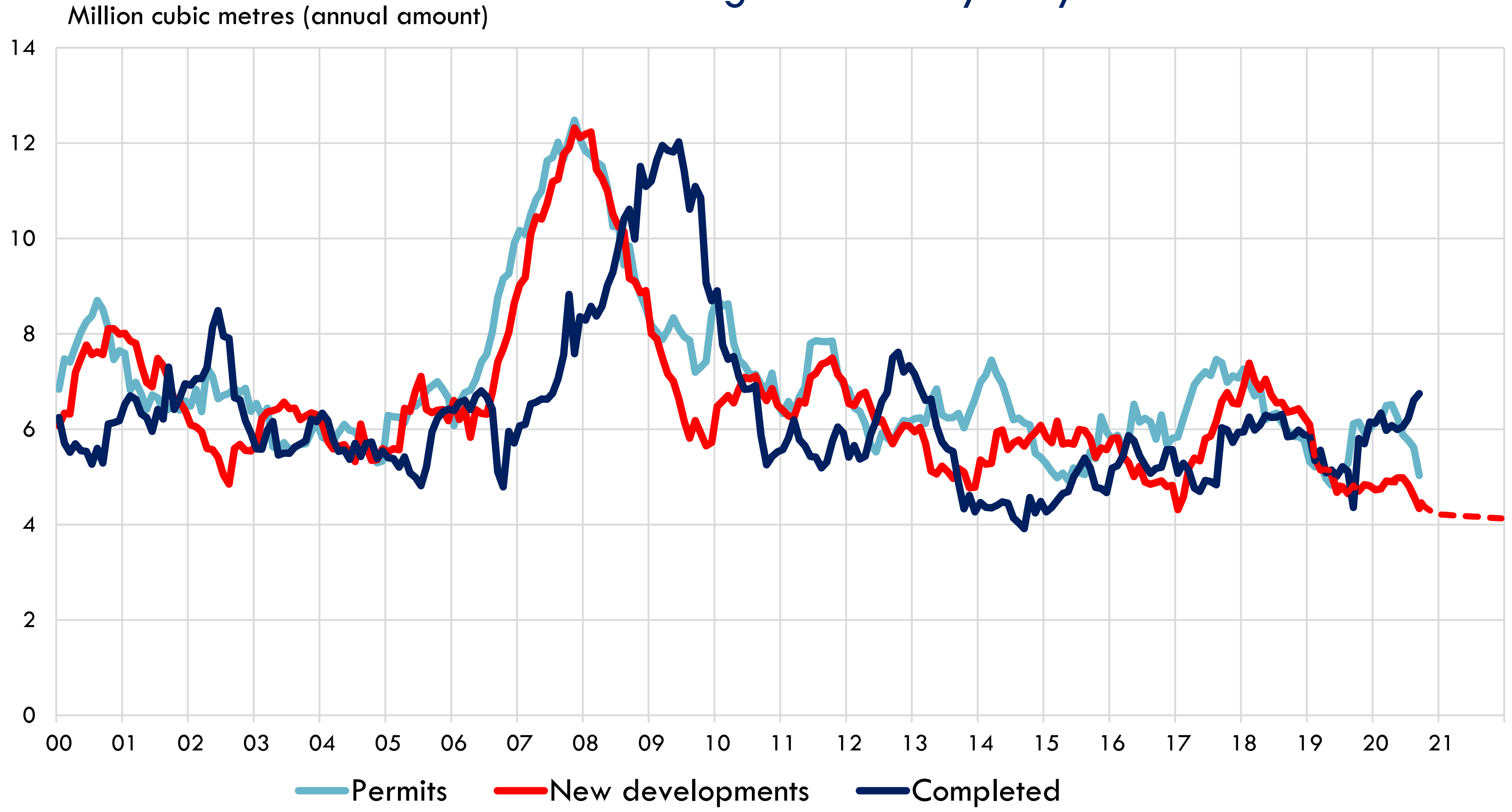
Long-term growth slows down

The impact of hospital project launches on the forecast period may change the view of public construction



Uncertainty continues for a long time

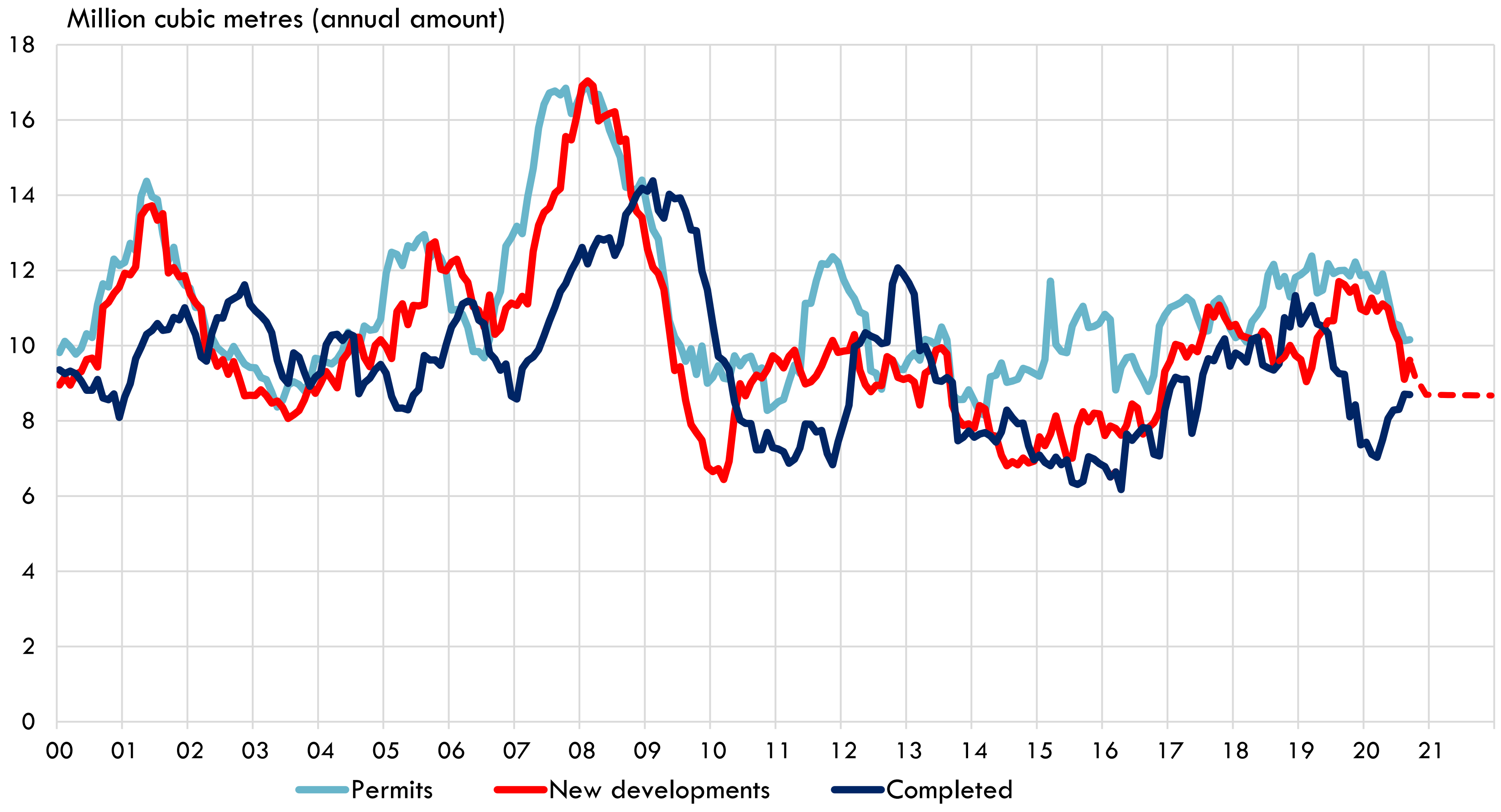
A Corona vaccine will not restore things to the way they were



Source: Statistics Finland, Confederation of Finnish Construction Industries RT

This year's drop has flattened

The large planned industrial projects falling on the forecast period may change the picture



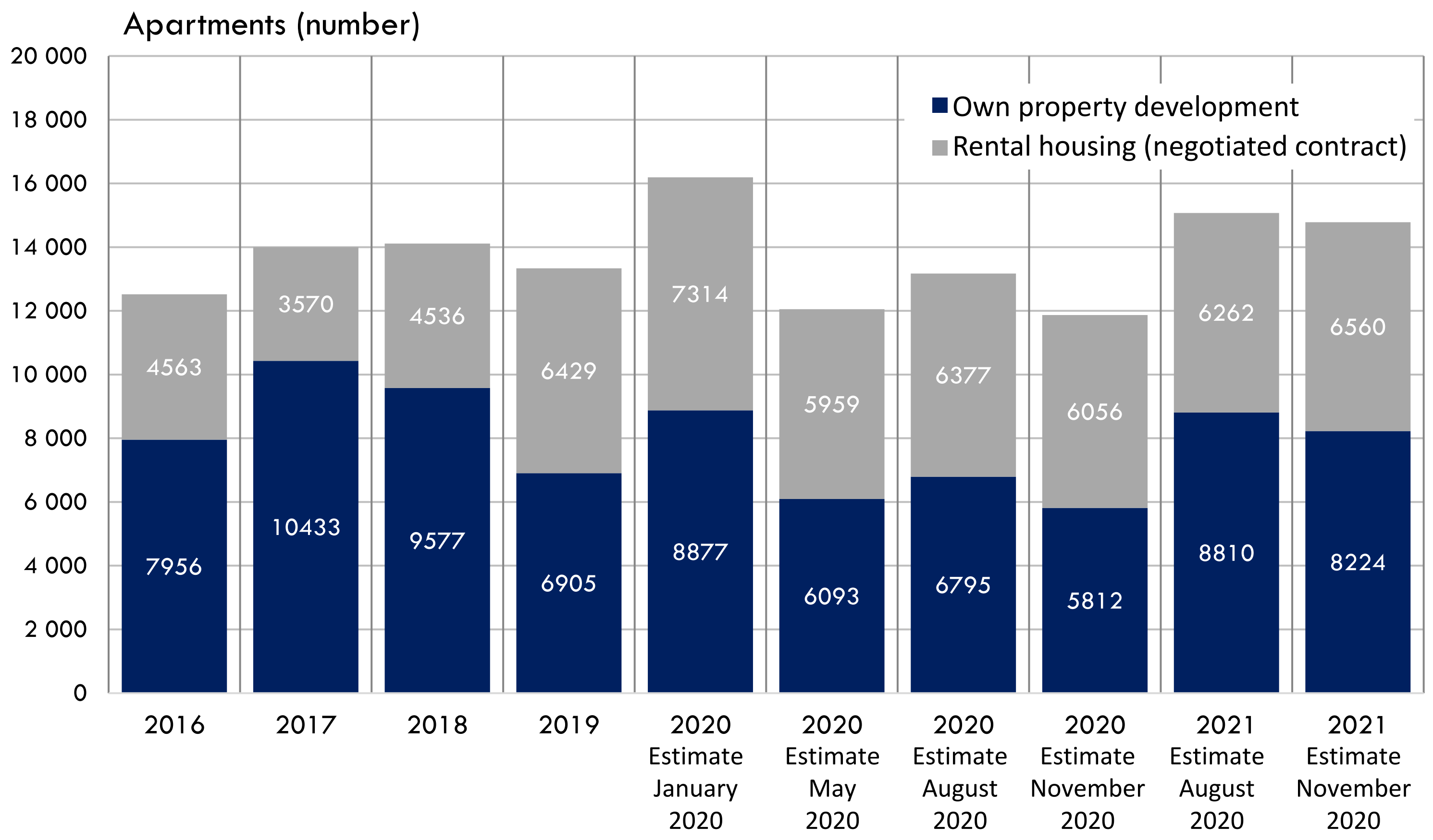
Source: Statistics Finland, Confederation of Finnish Construction Industries RT

Uncertainty hinders investments in new construction and renovation

The Corona crisis has changed the trends in the use of space permanently

Increase in property development is forecast in growth regions

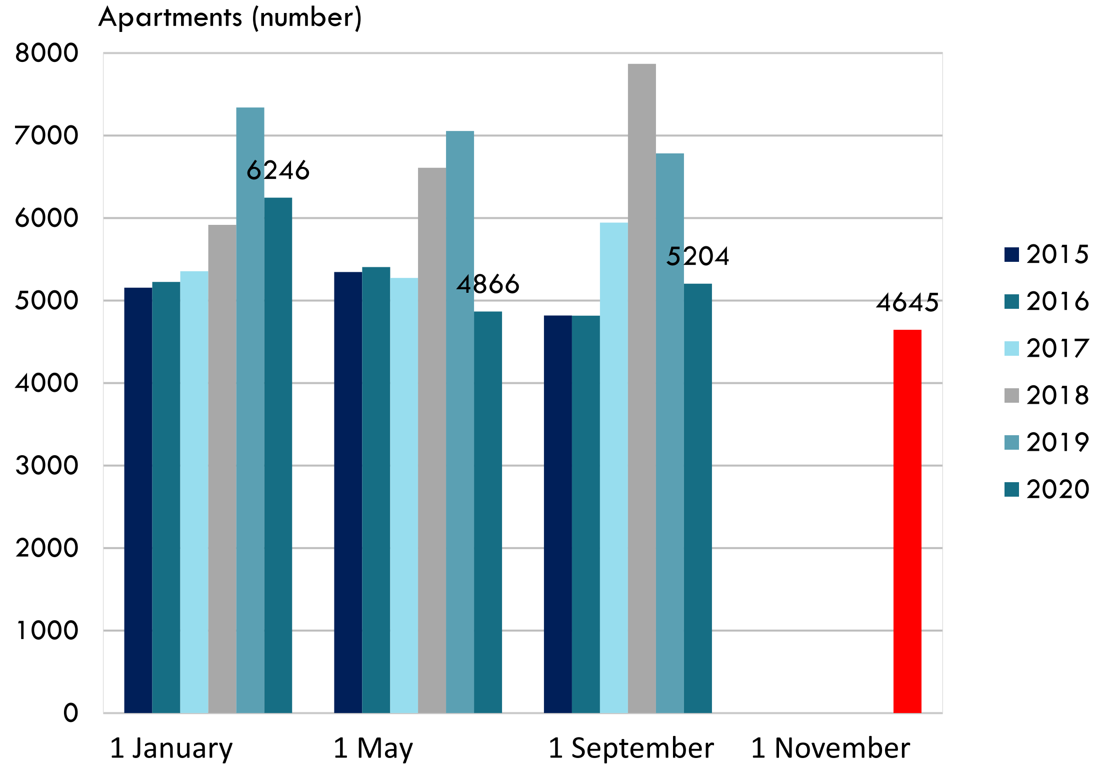
The tightening of funding is consuming

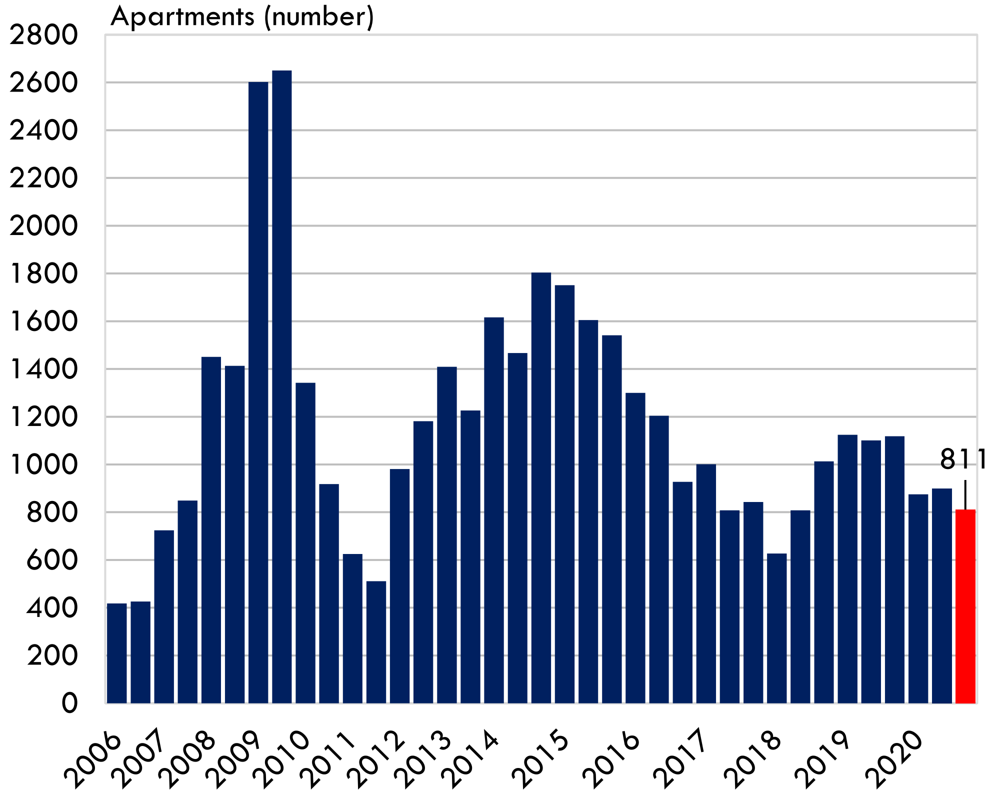


Source: Confederation of Finnish Construction Industries RT housing development survey (November 2020)

Number of apartments on the market at a low level

Advance reservation rate at a high level

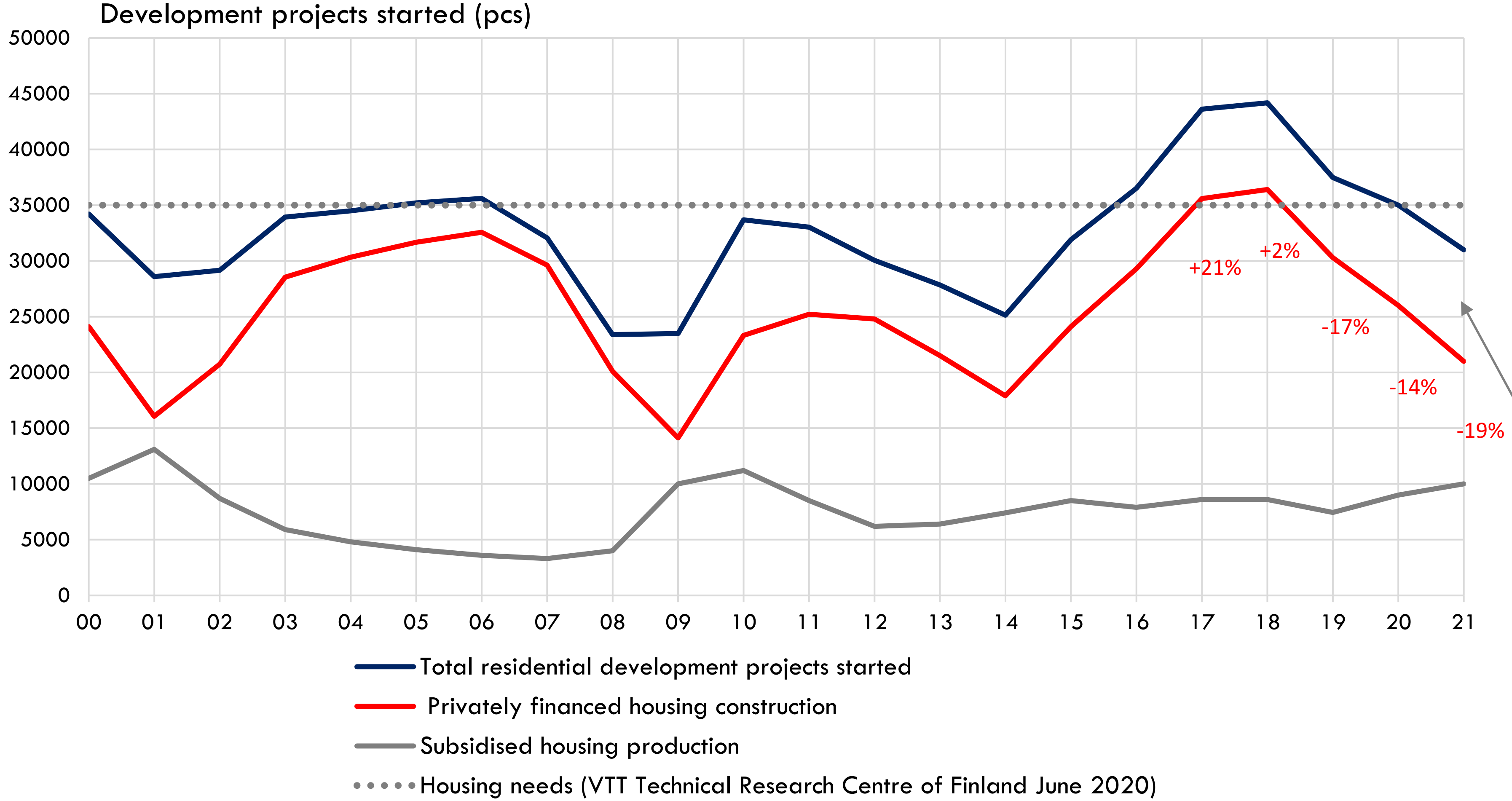




Source: Confederation of Finnish Construction Industries RT housing development survey (November 2020)

Urbanising Finland requires 35,000 new apartments every year

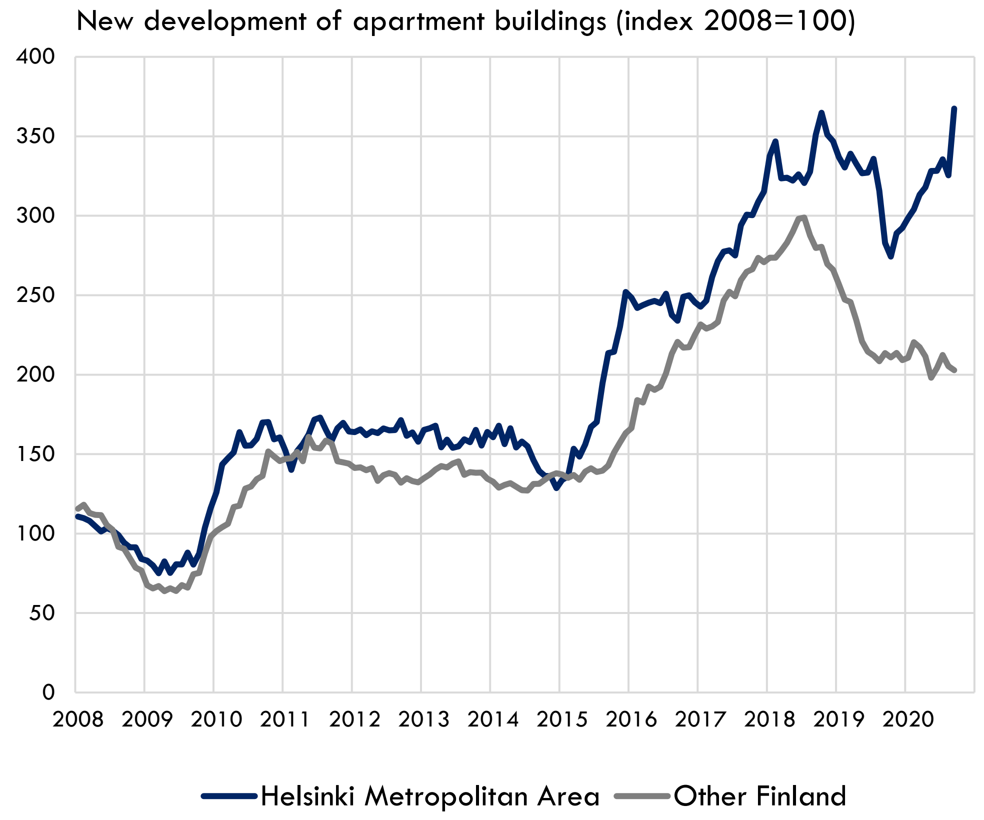
Construction of 700,000 dwellings over the next two decades means a EUR 200 billion contract for the 14 largest urban regions

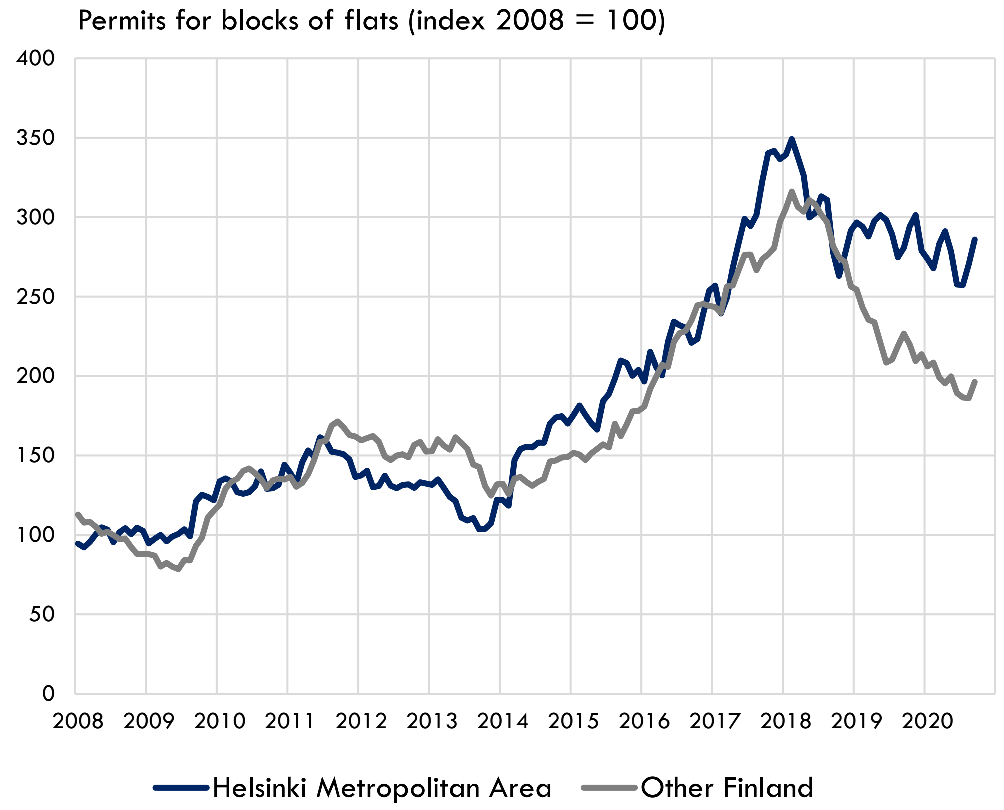


	Development projects started	% Prev. year
2019	38,100	-14
2020e	35,000	-10
2021e	31,000	-11

According to housing needs calculations by VTT Technical Research Centre of Finland Ltd. (June 2020), a total of 700,000 new dwellings will be needed in the next two decades, or 35,000 each year. 90% of the need is targeted at the fourteen largest urban regions. The share of the Helsinki sub-regional area is half.

The housing supply in the Helsinki metropolitan area remains high – the rest of Finland is falling



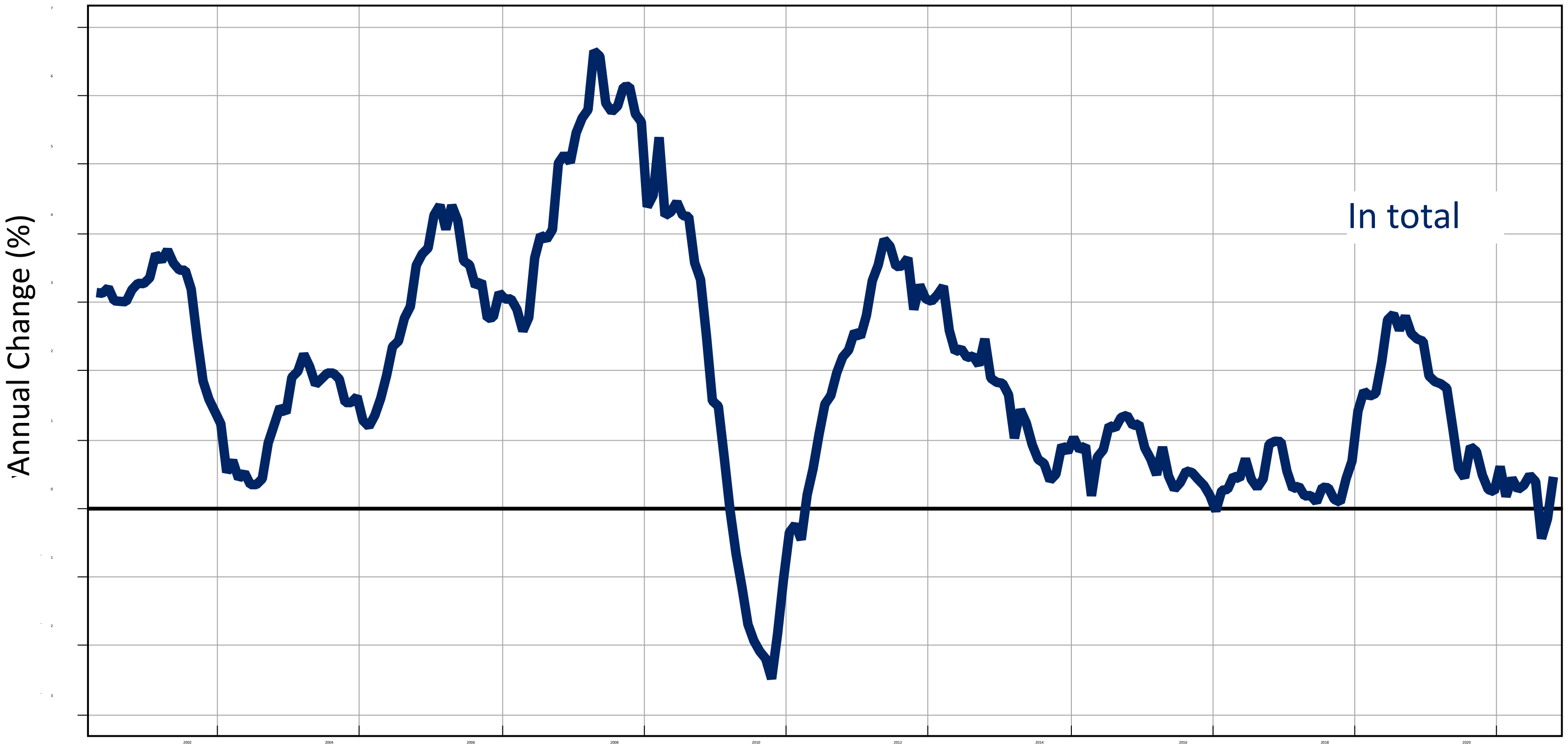


Tightened funding for housing construction

Housing production is declining, especially outside the Helsinki Metropolitan Area

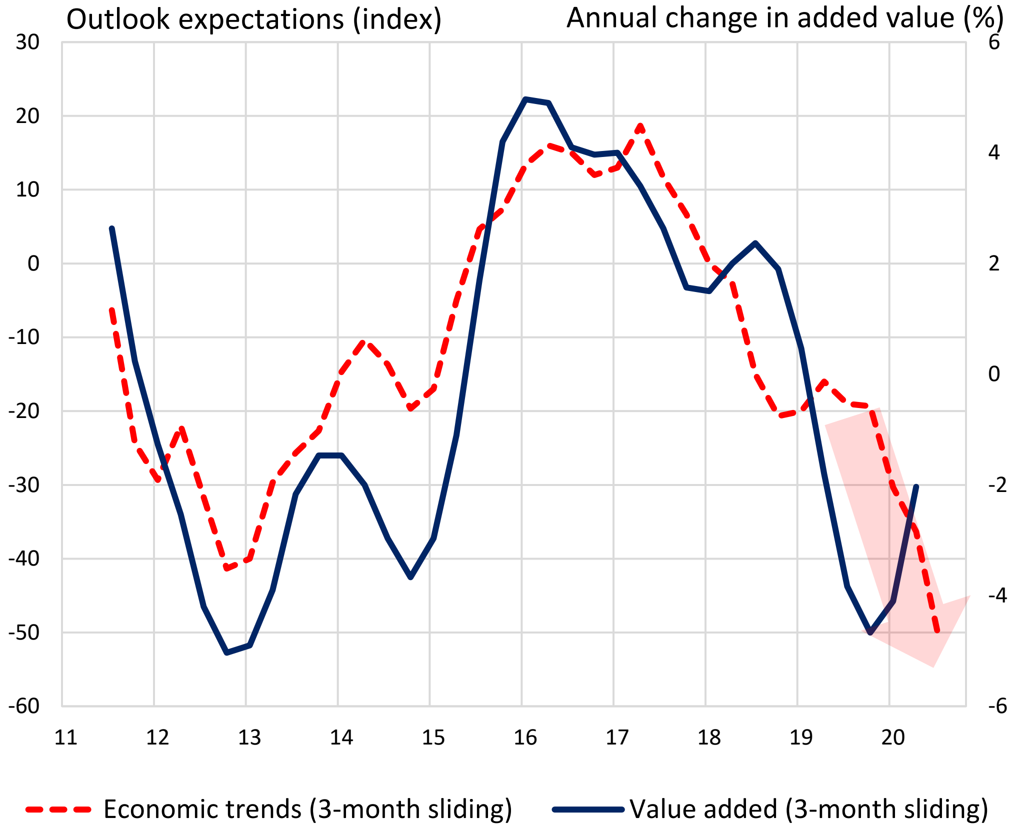
Construction costs continue to rise slowly

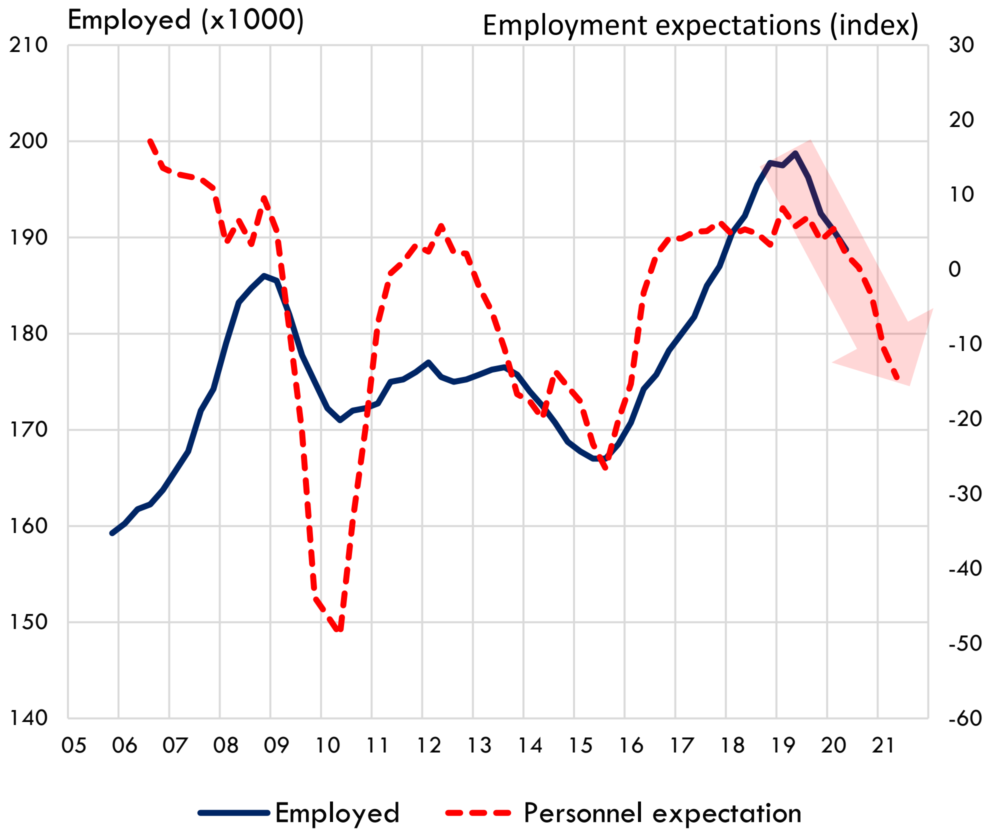
Slow rise after mid-2019



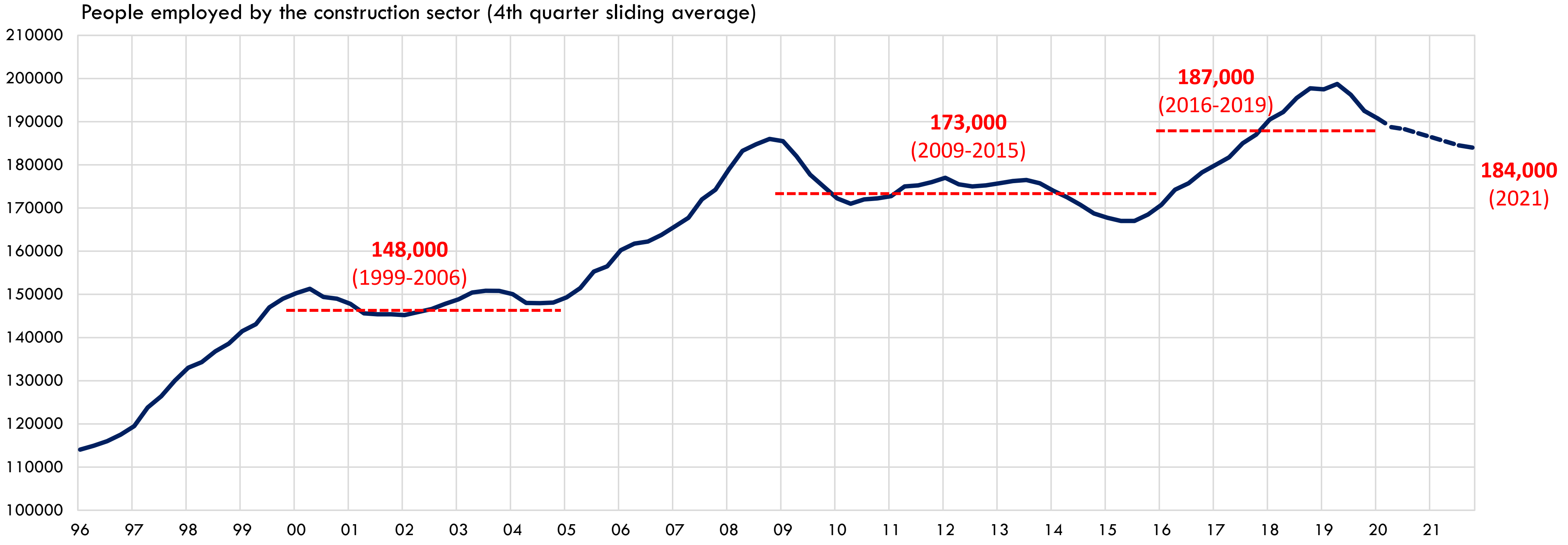
Source: Macrobond/Confederation of Finnish Construction Industries RT

Construction will not improve the Finnish economy or employment next year





Employment levels in construction have increased despite crises

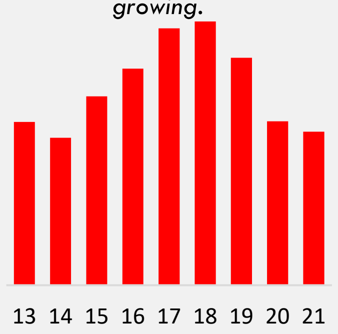


Confederation of Finnish Construction Industries RT forecast 2020-2021*

Residential development

In total
2018: 45,000
2019: 38,100
2020: 35,000
2021: 31,000

Residential development will fall below annual housing needs due to the decline in privately funded production. Regional differences are growing.



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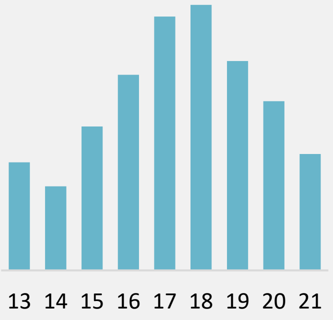
High rises

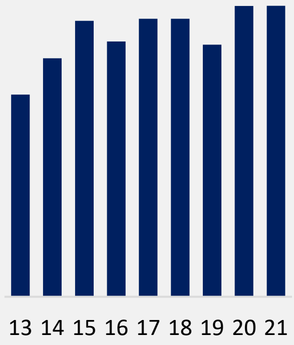
Privately financed
2018: 25,800
2019: 19,800
2020: 16,000
2021: 11,000

Consumers' desire to buy is high and interest rates are low. Availability of funding limits supply.



ARA aparments
2018: 8,600
2019: 7,800
2020: 9,000
2021: 10,000

ARA production will remain buoyant during the forecast period.



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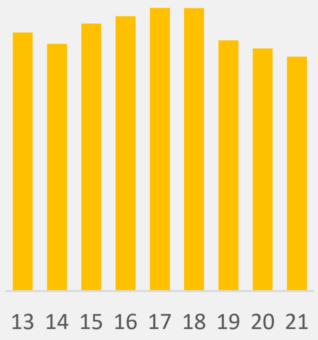
Row houses

2018: 3,500
2019: 3,100
2020: 3,000
2021: 2,900

Building row houses Is decreasing slightly.



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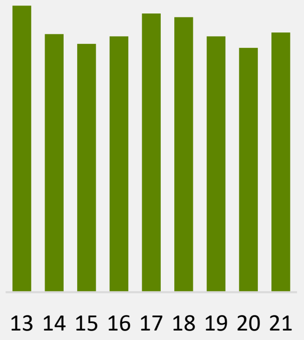
Single-family houses

2018: 7,200
2019: 6,700
2020: 6,400
2021: 6,800

Construction of small houses is growing slightly



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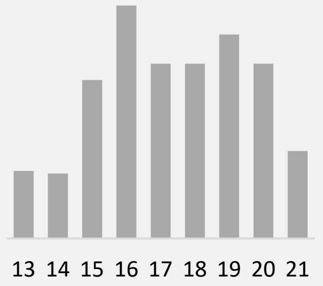
Other buildings

2018: 700
2019: 600
2020: 600
2021: 300

Other construction projects are also slowing down.



***new development projects**

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Source: Statistics Finland, Confederation of Finnish Construction Industries RT

Confederation of Finnish Construction Industries RT forecast 2020-2021*

Construction Total in 2019 EUR 36.1 BILLION

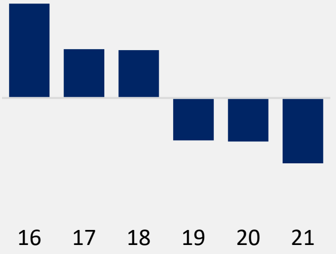
Construction of new buildings

EUR 15.7 BILLION

Housing — EUR 7.2 BILLION

2018: 8.8 %
2019: -7.8 %
2020: -8.0 %
2021: -12.0 %

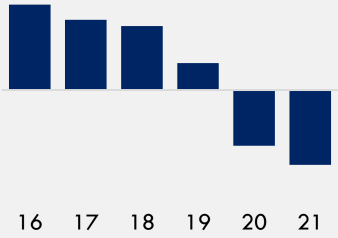
Construction of apartment blocks is slowing down considerably. Low interest rate support, funding is reduced. There is plenty of demand, but there is a drop in supply.



Premises — EUR 8.5 BILLION

2018: 6.1 %
2019: 2.6 %
2020: -4.0 %
2021: -6.0 %

The growth of the premises will stall this year. Uncertainty about life after Corona weighs down on next year.



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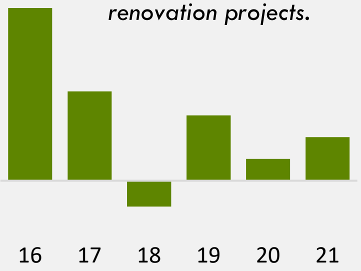
Repair construction

EUR 13.8 BILLION

2018: -0.6 %
2019: 1.5 %
2020: 0.5 %
2021: 1.0 %

Renovation of dwellings will recover to normal growth. Uncertainty about the effects of Corona has a negative impact. The weak economic situation in municipalities is slowing down public renovation projects.



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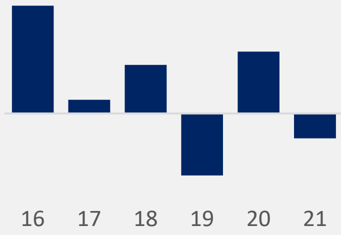
Civil engineering

EUR 6.6 BILLION

2018: 3.9 %
2019: -2.5 %
2020: 5.0 %
2021: -2.0 %

Route construction doing well this year. As several projects end, civil engineering will be reduced next year.



= Construction in total*: 2019e: -4 % 2020e: -1 % 2021e: -4 %

***quantitative change**

Rakennusteollisuus

It is advisable to turn the repair debt and obligatory projects into sustainable growth with EU stimulus money

Long-term construction slowdown is a risk to the Finnish economy

Summary

Roads are diverging

The economy is recovering to slow growth – the bill for Corona has been handed to the construction sector

The current year will be better than anticipated

The large number of projects launched last year, keeping the sites open and extensive stimulus measures targeted at the entire economy continue to support construction

Housing construction slows down as funding decreases, especially outside the Helsinki Metropolitan Area

The number of dwellings completed will remain high until the beginning of next year

The uncertainty concerning the demand for space in office construction will continue for a long time

In the short-term, challenges of rent payment capacity and underuse - in the long term, the entire demand for space is undergoing change

Repair construction will only recover with regard to residential buildings

Renovation of office premises is slowed down by uncertainty in changes of trends in work and space use

Civil engineering declines as large projects and recovery decline at the same time

The sector is also slowed down by the weak economic situation in municipalities

The decline in employment in construction will also continue next year

The slowdown in employment, which began in 2019, will continue. Employment follows the development of construction volumes

The risk to the Finnish economy from a long-term slowdown in construction must be avoided

It is essential to turn the repair debt and otherwise obligatory projects into sustainable growth with EU stimulus funding

Rakennusteollisuus

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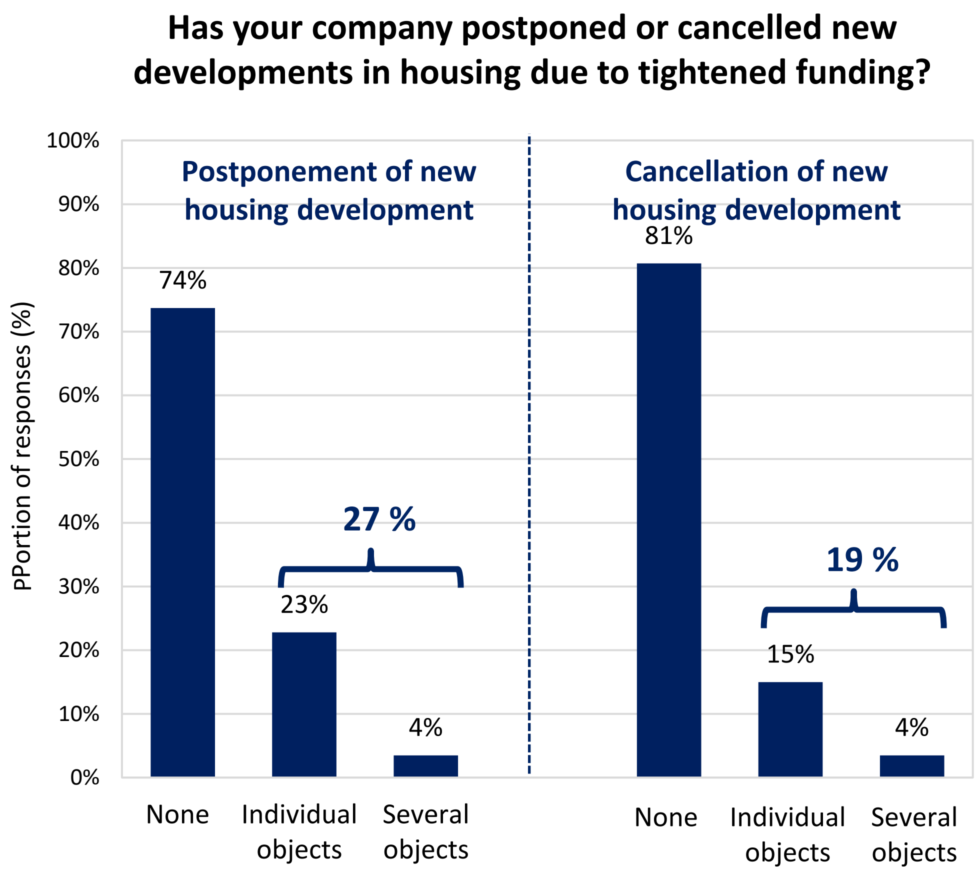
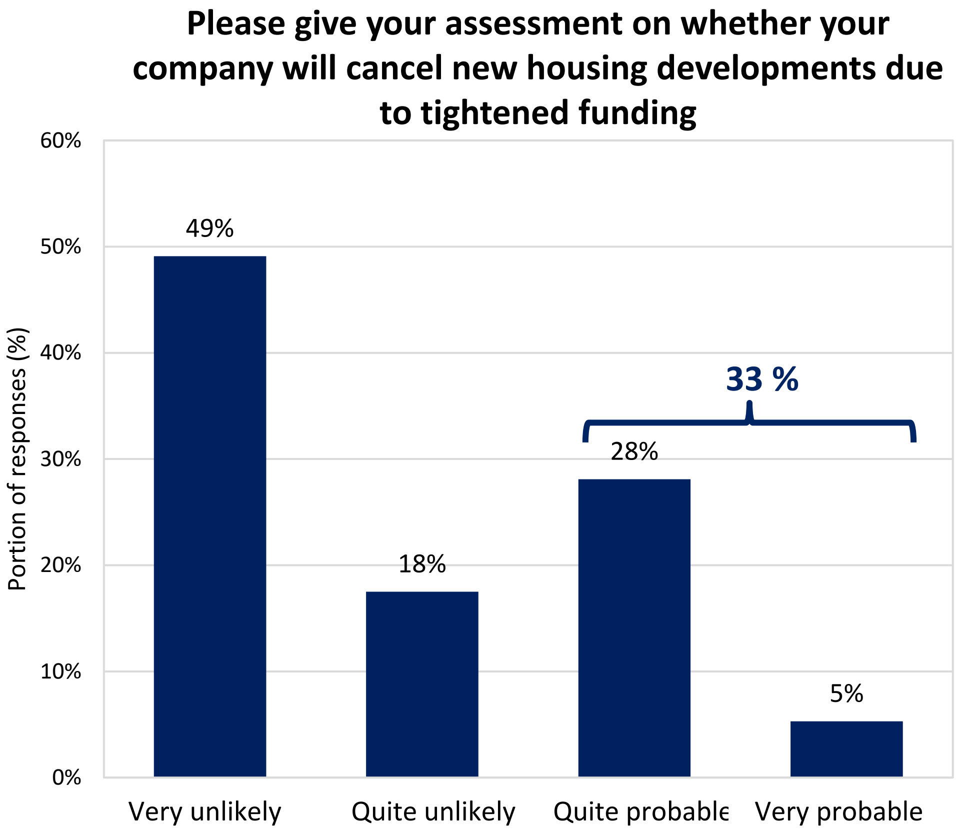
Tightening funding threatens construction projects

Managing Director Aleksi Randell 25 November 2020

Rakennusteollisuus

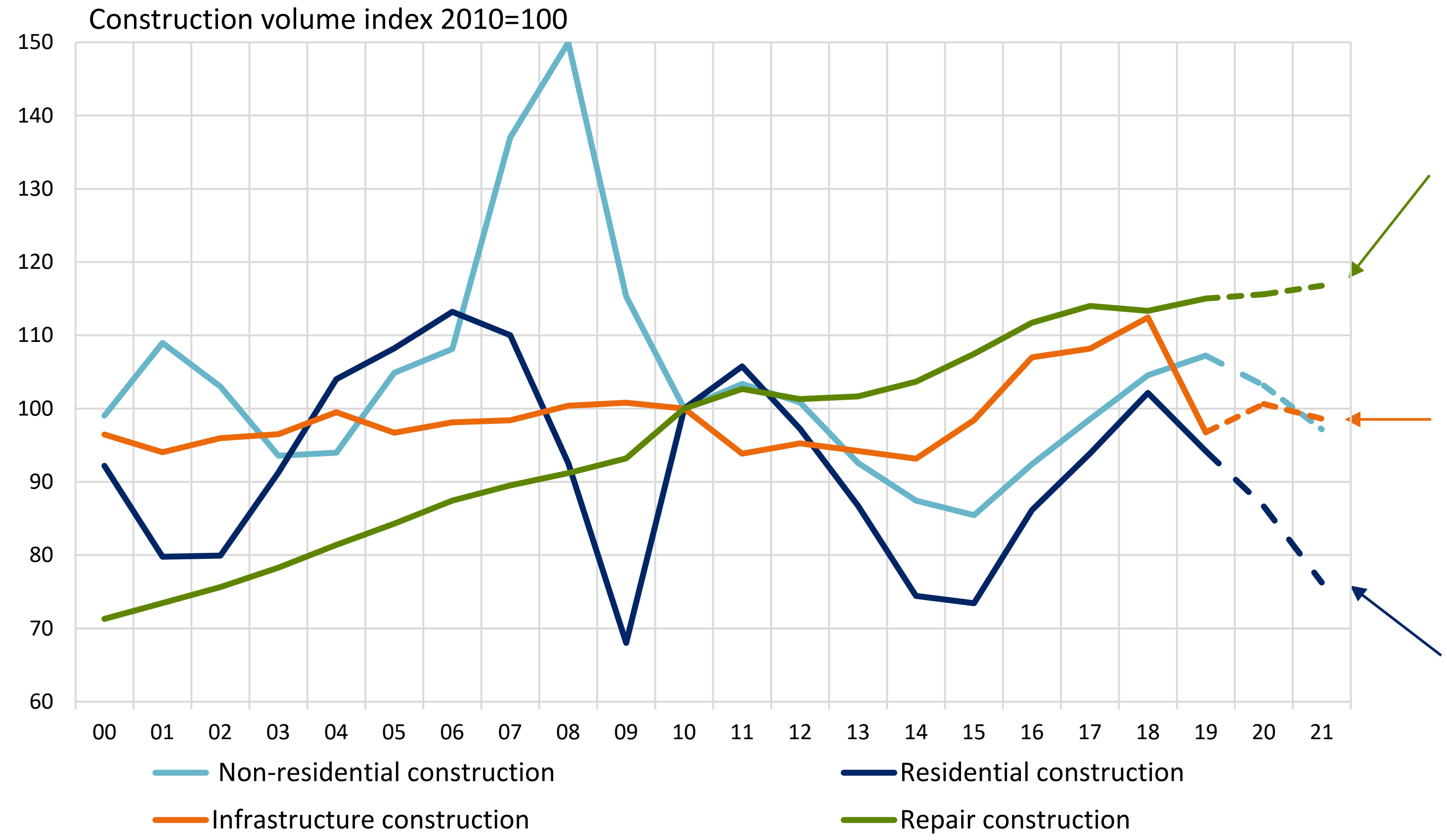
Tightening of funding has lead to postponement and cancellation of projects, one third of respondents estimated that they will cancel projects in the future





It is essential to turn the repair debt and obligatory projects into sustainable growth

Ecological, economic and social reconstruction require additional investment



Green transition

The majority of our infrastructure must be rebuilt so that we can live within the limits of 1.5 ° C warming. The majority of emissions from the built environment are generated by the existing building stock. The current growth in renovations is not enough to achieve the objectives of the EU Commission.

Competitiveness and growth

The competitiveness of business life depends on external and internal accessibility and the movement of labour. A functioning infrastructure is the basis of all growth. Infrastructure construction leverages other economies, such as the construction of housing and services. With the current investments, it is not possible to combine growth centres and regions, and Finland remains too far at the periphery of a slowing Europe.

Economically and socially sustainable housing

Urbanisation and labour mobility require the construction of 35,000 dwellings annually. Post codes must not define the opportunities for regions and people. Fluctuations in residential construction and a decrease below housing needs is not enough for economically and socially sustainable growth.

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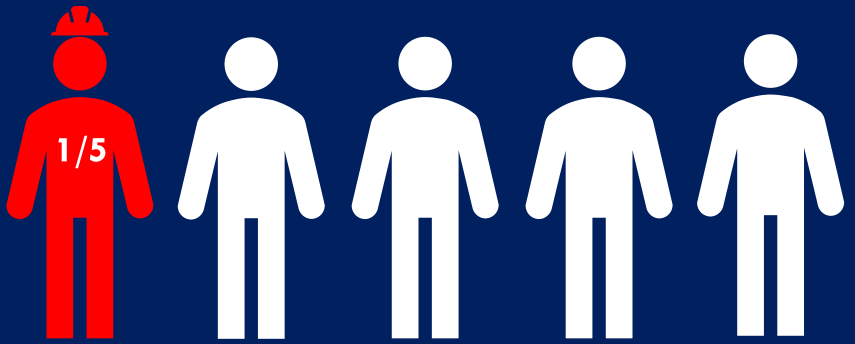
Appendices:

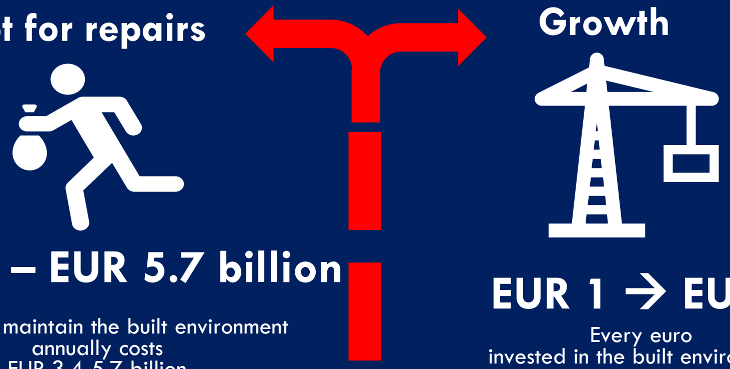
One out of five Finns finds employment with new building construction or maintenance of existing property



There are 2.5 million people employed in Finland, one in five of whom are employed in construction
or maintenance of existing property.

Inactivity is the most costly option

83% of Finland's national wealth is in the built environment



Debt for repairs

EUR 3.4 – EUR 5.7 billion

Failure to maintain the built environment annually costs EUR 3.4-5.7 billion

Growth

EUR 1 → EUR 2

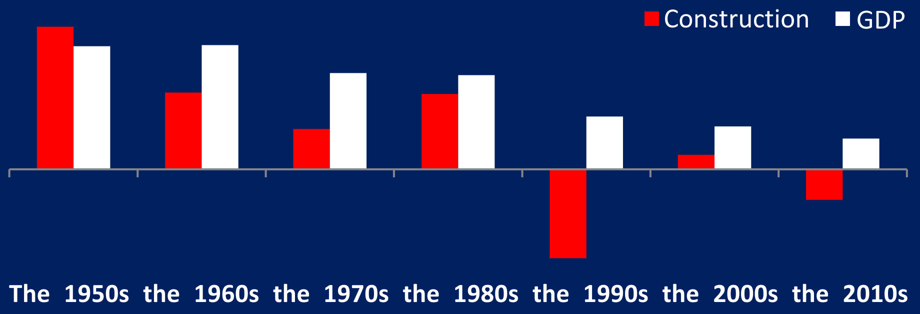
Every euro invested in the built environment yields double back

Economic growth is slowing down – the need for infrastructure that combines new housing and growth areas is not going anywhere

150,000

new homes during the current government term

The second wave of urbanization requires investment – the construction of Finland is not complete



Five reasons behind construction being an effective method for stimulating the economy

Immediate effect

1.Employment

One million euros invested in the construction sector employs 13-16 people. Compared to other industries, the level of domestic employment in construction is high. Example: EUR 275 million used to build the Espoo urban railway would employ 4,125 people.

2.Tax revenue

Of the euros invested in construction, the portion of taxes is 40-45 per cent. Example: Tax euros invested in the Espoo City rail line will be returned to the society tenfold in housing construction tax income alone.

Long-term impact (MAL)

3.Competitiveness

Housing and infrastructure development improve the mobility of labour and freight. Long-term growth conditions are most effectively improved by developing domestic and international accessibility.

4.Stepping stone

A well-chosen construction project works as an effective stepping stone for other construction projects. Example: The Espoo City rail line advances other construction projects worth billions of euros, including the construction of over 25,000 homes.

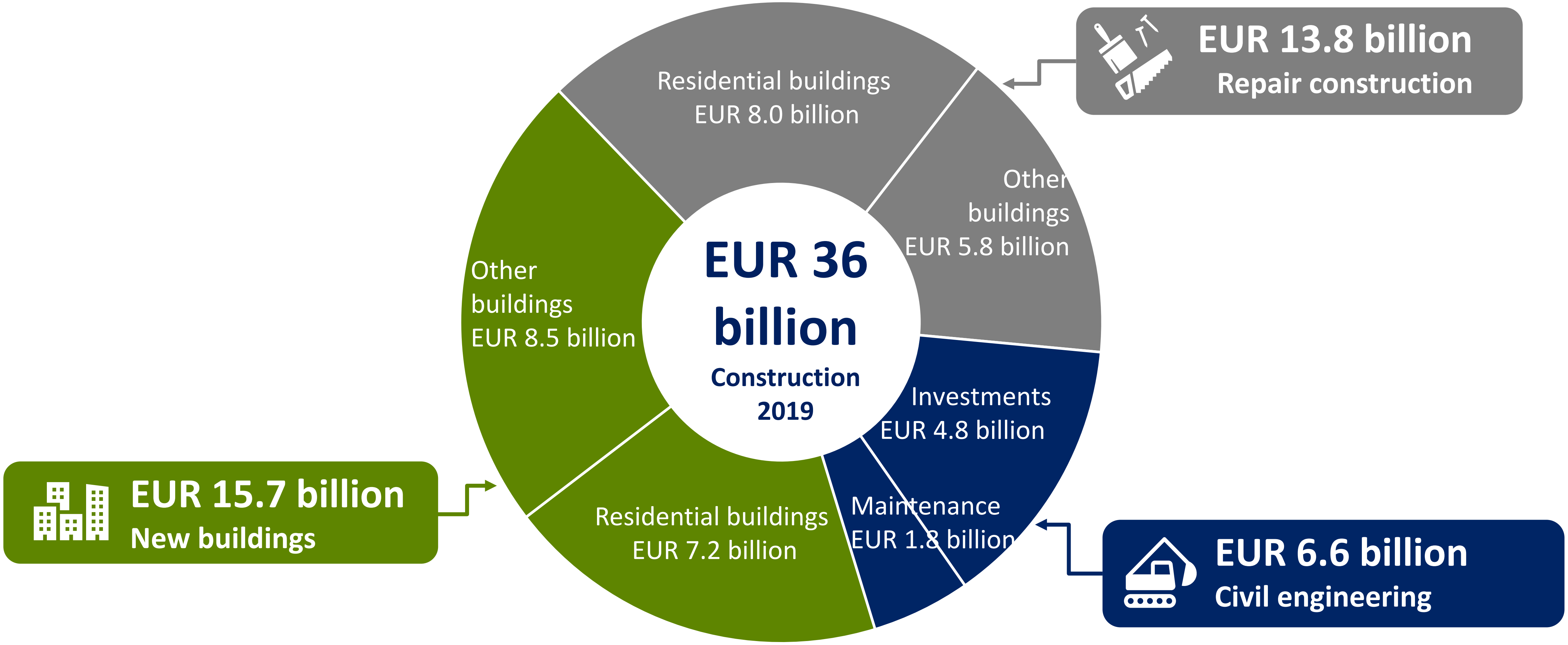
5.Sustainable growth

Construction sustains and increases the production potential of the economy, which must be in order when the economy picks up after the Corona crisis. Construction can help strive for reduced emissions.

Land use, housing and transport (MAL) planning can help to realise long-term growth potential, but it must be unified and expanded more ambitiously.

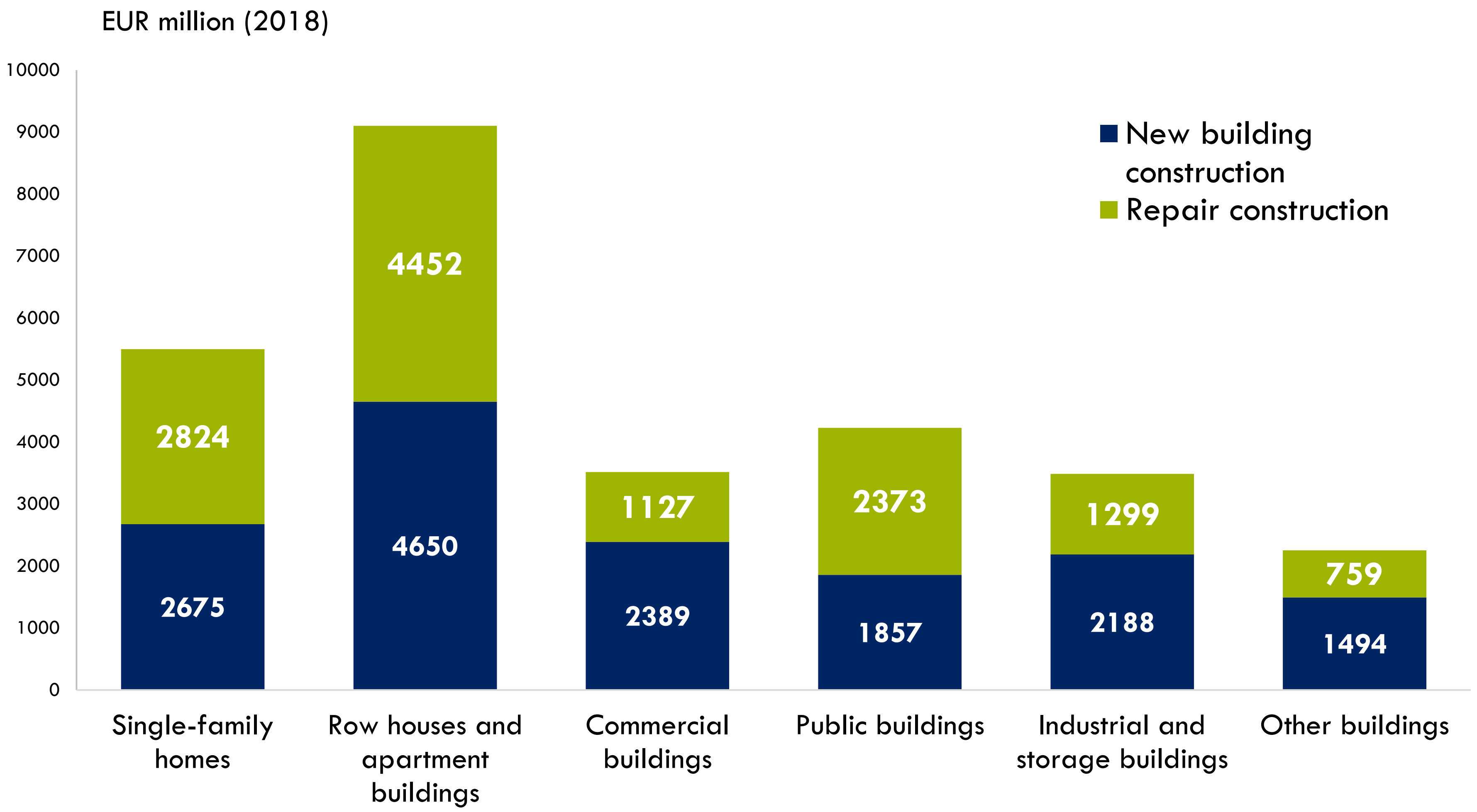
Distribution of construction by main sector

Turnover 2019



Source: Statistics Finland, Forecon

Division of construction



EUR 36.1 BILLION

CONSTRUCTION IN TOTAL 2019

EUR 15.4 BILLION

Construction of new buildings

EUR 13.8 BILLION

Repair construction

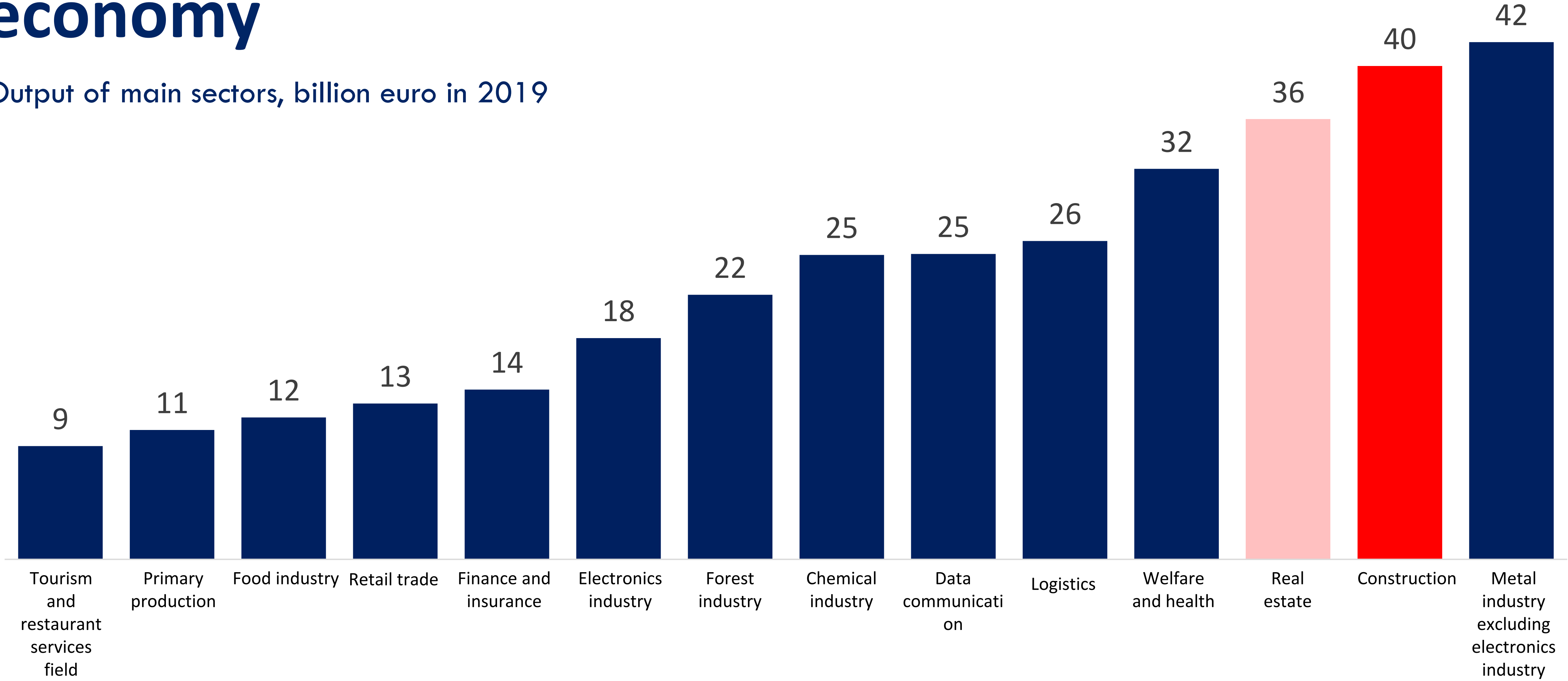
EUR 6.6 BILLION

Civil engineering

Industry comparison

Construction is a major sector that serves the entire economy

Output of main sectors, billion euro in 2019



Source: Statistics Finland