



The construction industry is navigating through its third crisis

Still standing

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Chief economist Jouni Vihmo

Still standing

The coming winter will bring about the third crisis in the construction industry within a short time. In 2020, the Covid-19 pandemic threatened to close construction sites, put urban living on hold, and caused uncertainty in the use of public spaces. This year, the war in Ukraine has broken supply chains and further increased costs that the pandemic had already affected.

The coming winter is once again plagued by uncertainty and a new crisis, this time related to the sufficiency of energy. Europe is heading towards a recession, which will mean that Finland's economic growth will also be temporarily halted at some point. We can no longer rely on zero-interests and consumer confidence, which have helped us through the previous crises. The only certainty is that there will be surprises. However, the current forecast indicates that the economy will keep growing. This is crucial for construction, even if we will be just barely scraping by for the next year. In 2024, growth will once again speed up, which gives new hope for the construction industry.

The industry will continue to grow until the end of the year thanks to ongoing projects and successful housing projects. Next year will begin a decline. There is a lot of uncertainty, and many indicators of negative development. Our development forecast is therefore moderate and presumes that the inflation will slow down and the financial market will remain operational.

As the inflation has peaked during the autumn, price increases will slow down in the coming year. This will help stabilise interest rates and gain the trust of consumers who may have been spooked by declining purchasing power and savings. Consumers will get used to the higher but still rather low interest rates. The inflation and the climbing interest rates have already affected housing prices. However, the housing market in Finland remains stable. Its development is mainly dependent on domestic developments. Sweden's problems are not Finland's problems, even though there are some opinions to the contrary. The crisis does not seem to be causing great harm to mortgage-holders. On the other hand, the weak development of existing capital stock will be a challenge for developers. The inflation will be nibbling at construction projects from unusually many directions.

Consumers will be tightening their purse strings for a while, but there is potential elsewhere in the economy. There are some industrial and public sector projects starting in the spring. Infrastructure development will be weak, but some investments in the security of supply and energy self-sufficiency will be necessary at some point. Renovation will increase, because there will be a growing need for it. This means that negative consumer attitudes alone are not enough to paralyse the industry. Some uncharacteristic public sector decisions and loss of confidence in companies and especially the financial market would also be needed. Regardless of rising stress levels in the financial market, there is no indication of a new financial crisis.

The construction industry has successfully navigated exceptionally murky waters with a constant shortage of workforce and materials. Thanks to the determination of the industry, the pandemic did not shut down worksites. Hard work and innovation has helped counteract the material shortages and rising costs caused by the war in Ukraine. The construction industry will be facing its third crisis within a short time. In the words of the late President Mauno Koivisto: if we do not know for certain what will happen, let us assume that all will be fine. There are plenty of field-specific uncertainties. We should take them on one at a time.

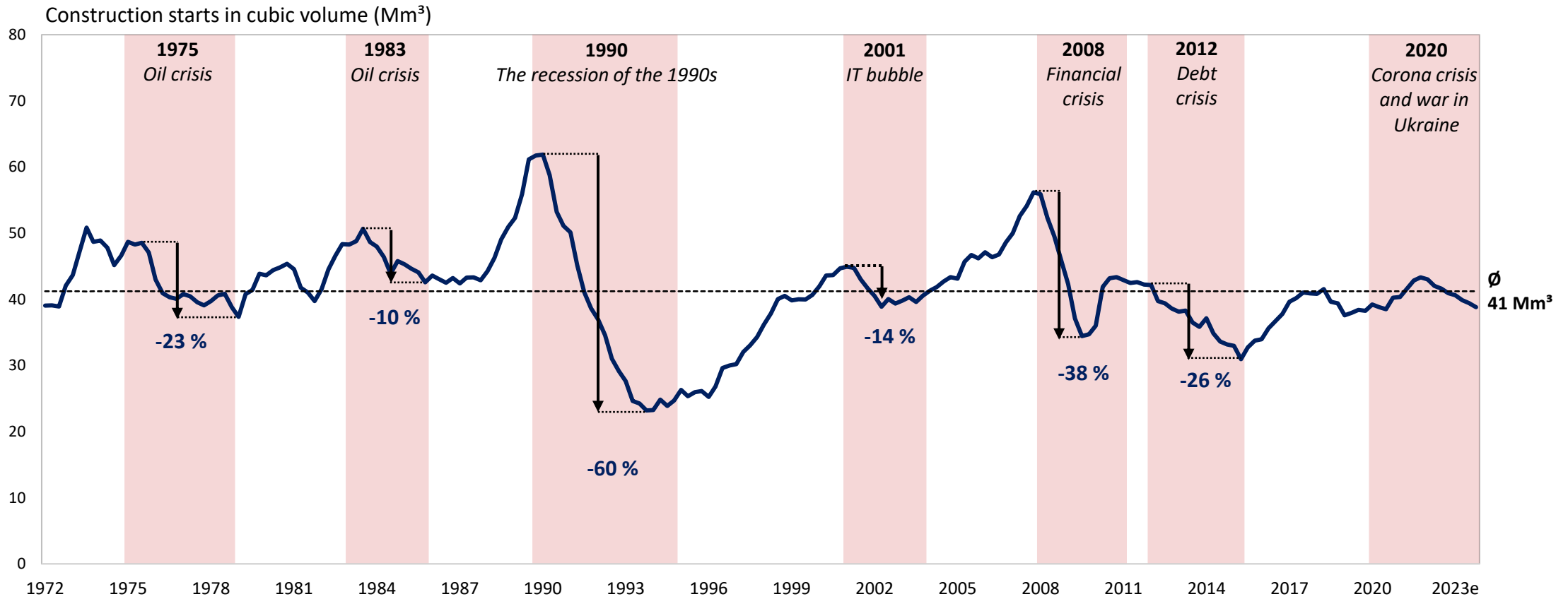
**“If we do not know
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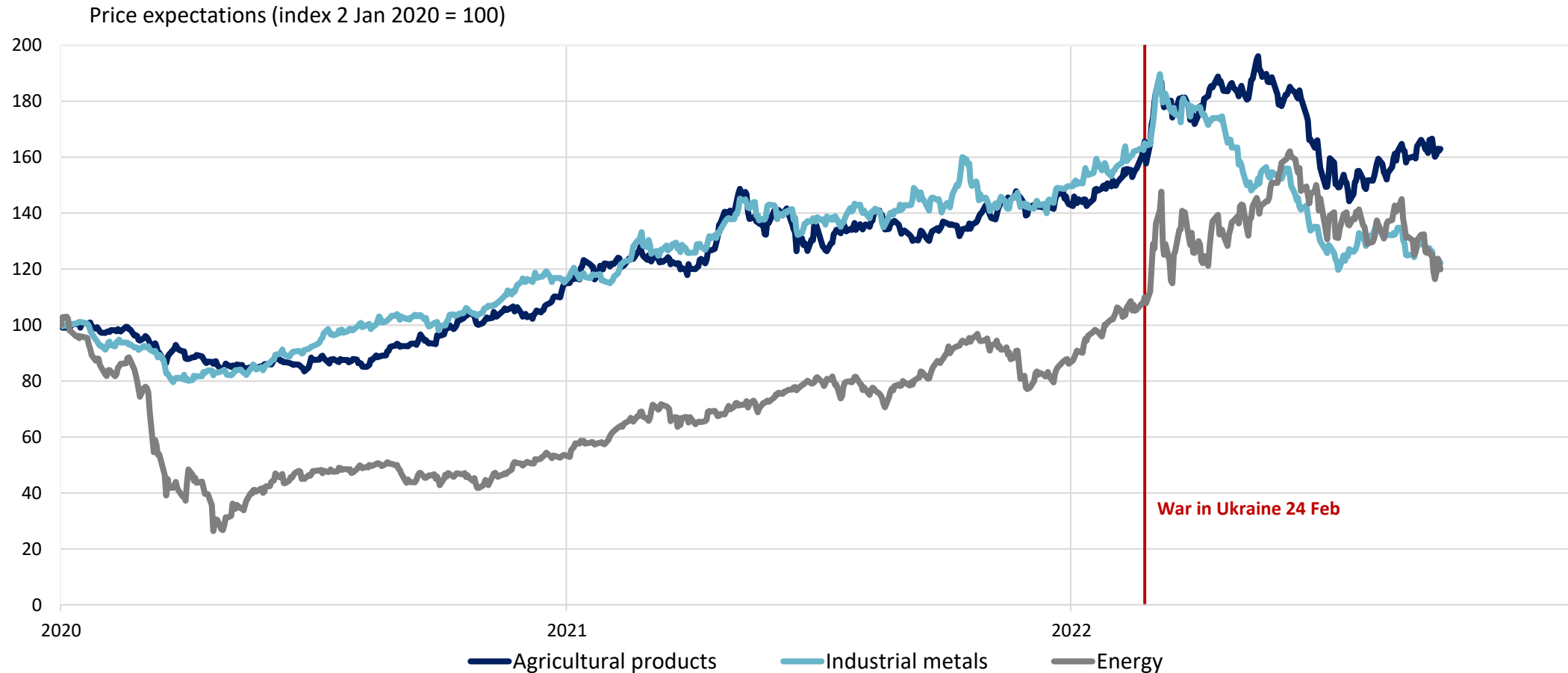
Crises always affect construction

On average -30 %, at most -60 % but at least -10 % – the current situation mostly resembles oil crises



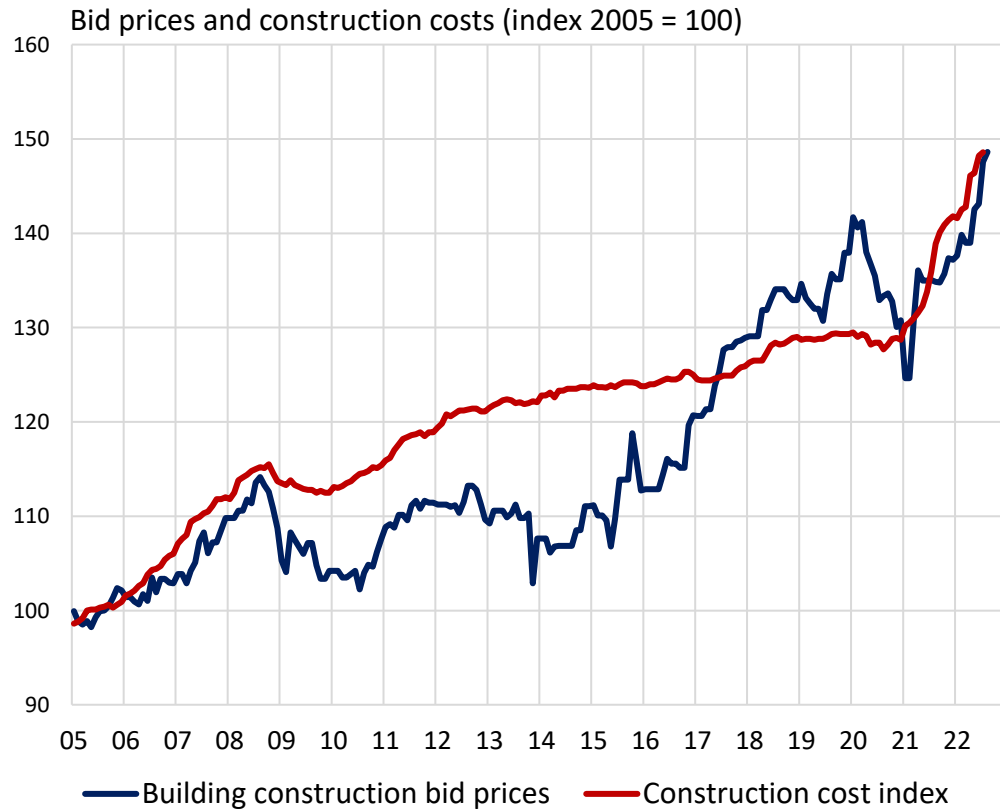
Inflation peak during the autumn

The slowing down of consumer price increases will help improve consumer confidence – will shortages become the new normal for the construction industry?

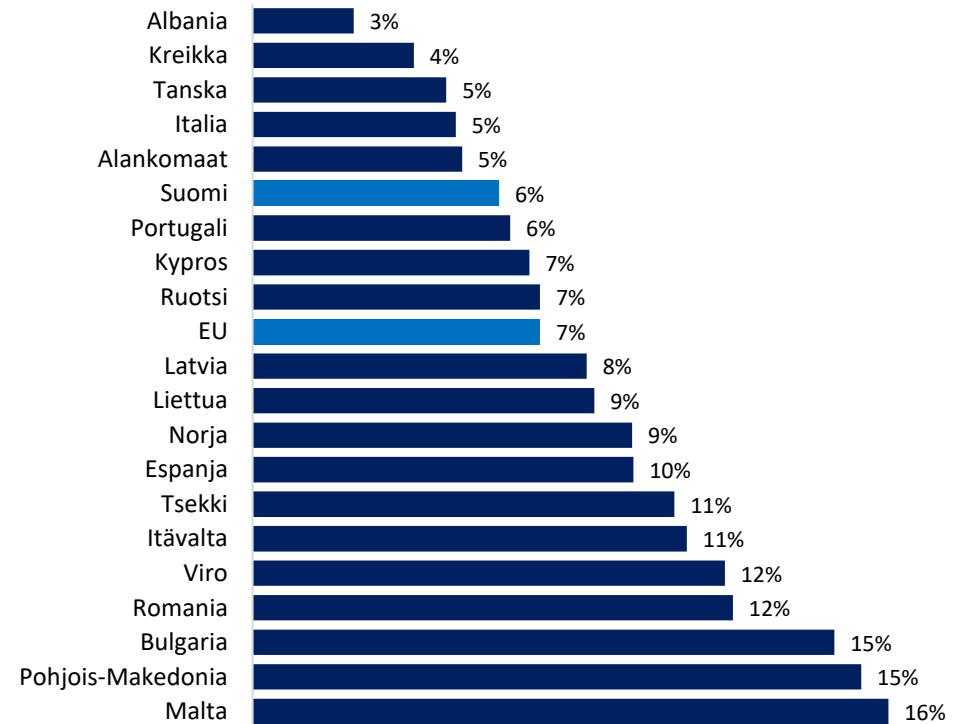


Tendering will remain difficult

No one has been spared from the post-pandemic price increases – Finland is below the EU average



Change in construction costs Q1/2021–Q1/2022



Low interest rates and the increased significance of homes helped us through the pandemic

Uncontrolled inflation is gnawing at housing development

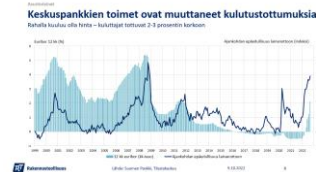
Inflation sores in the declining economic climate
Quickly rising consumer prices are eating into household savings



Consumer confidence falls
High prices cause annoyance



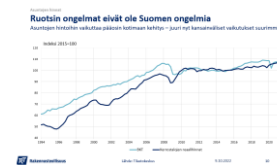
Rising interest rates and falling loan taking
Central banks' situation is lowering loan taking willingness to financial crisis levels



Rising construction costs
Uncertainty causes high risks in tendering



Housing prices decreasing
Prices usually affected by macroeconomic developments

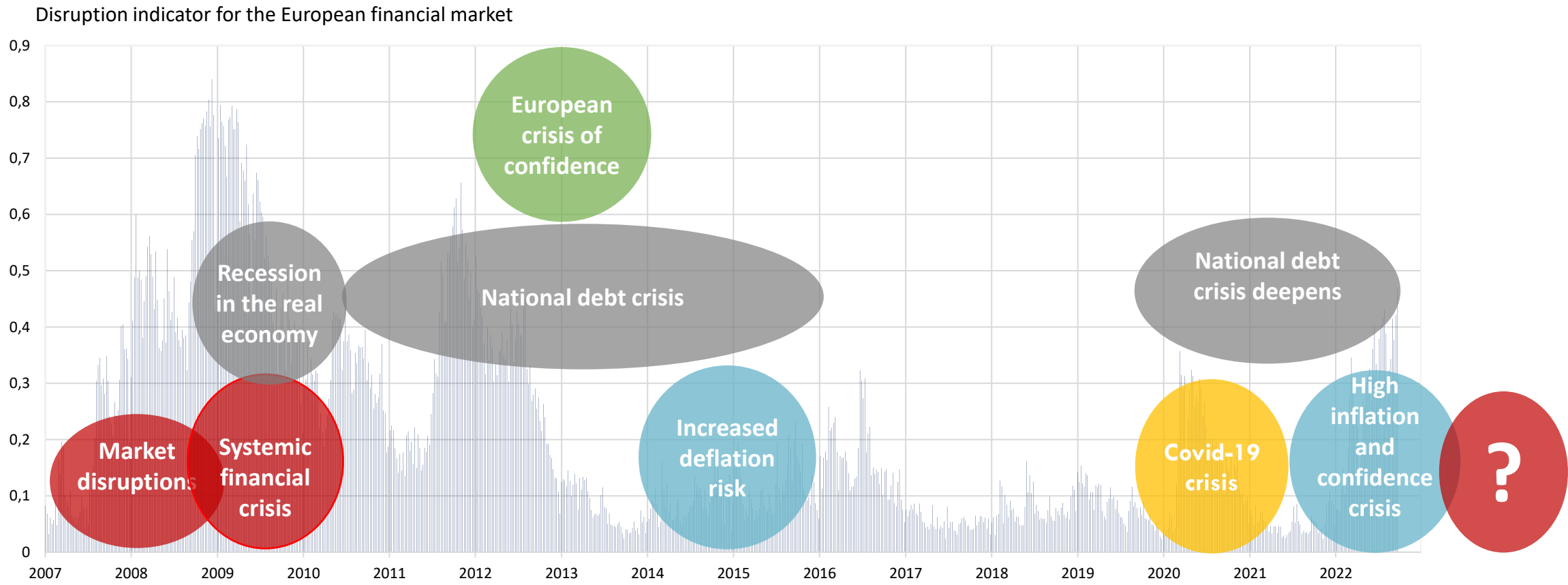


Project profitability weakens
The lowering prices of old buildings makes new construction unprofitable



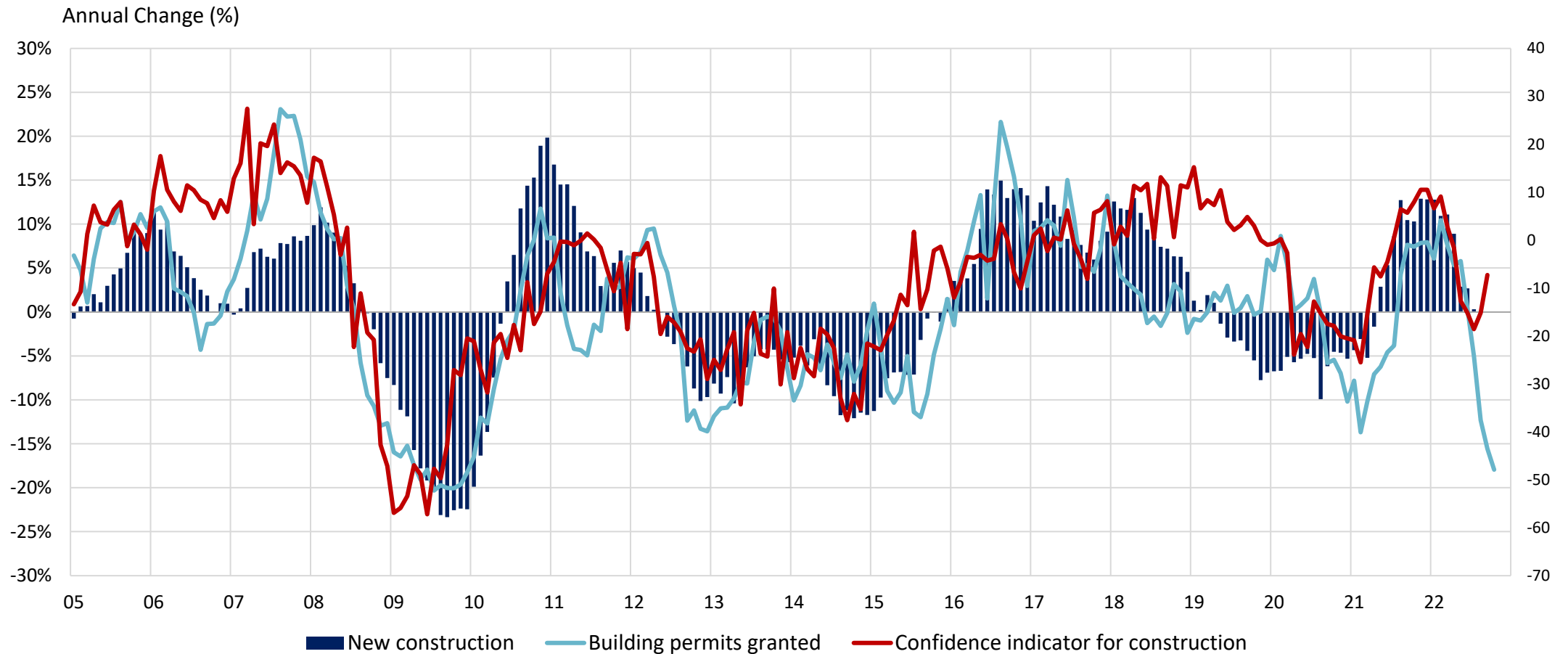
The financial market is tense

Negative consumer attitudes alone are not enough to paralyse the industry – loss of confidence in the financial market would also be needed

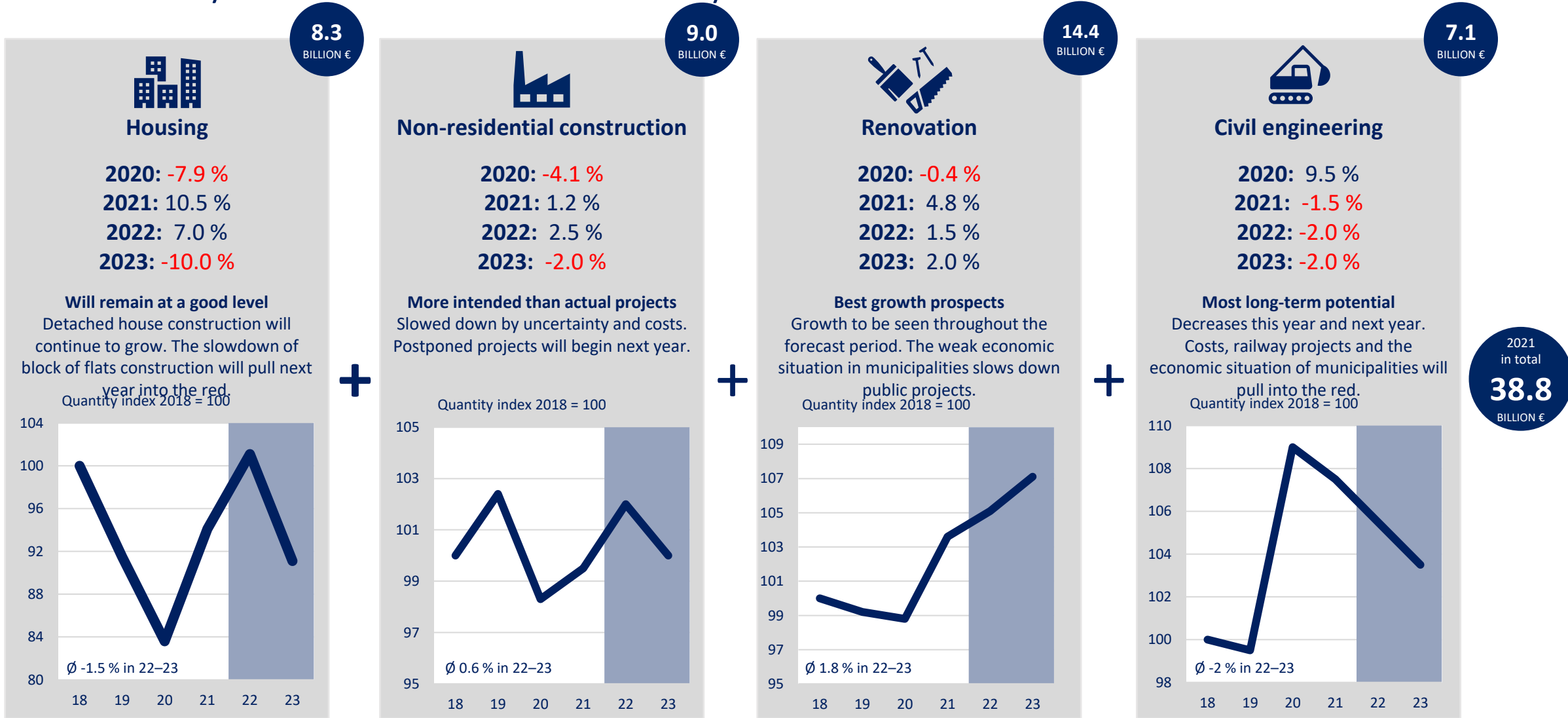


Construction is in recession

The war has impacted the number of building permits and confidence – ongoing construction will begin to decrease at the end of the year



Construction industry prospects 2022–2023: the current workload will support the industry until the end of the year – momentum will be lost next year

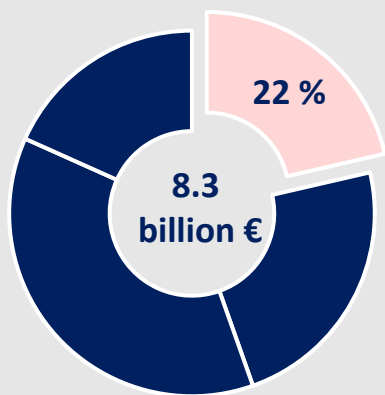


= CONSTRUCTION IN TOTAL*: 2021e: +9.6 % 2022e: +2,0 % 2023e: -2.0 %

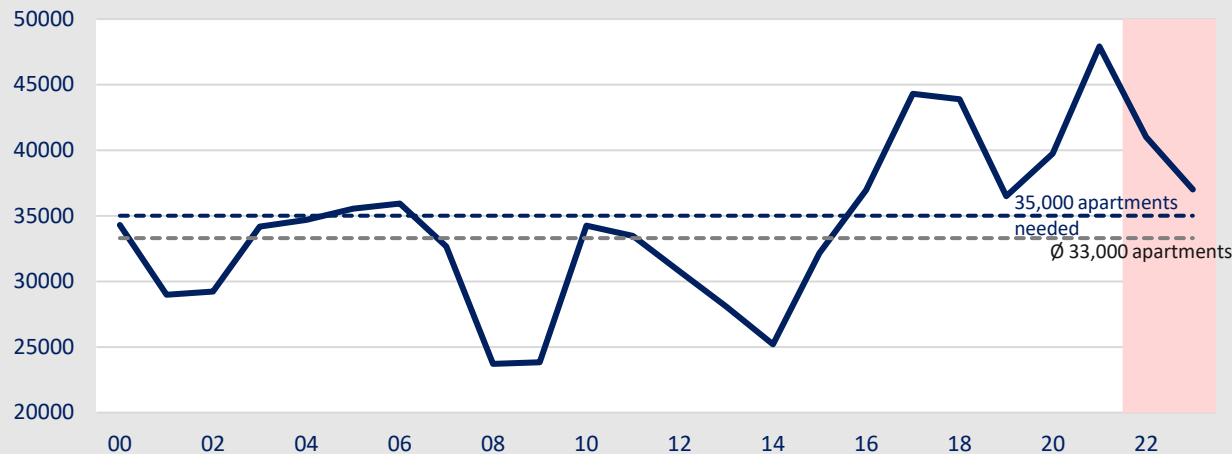
Housing construction prospects: significant slowdown, will remain in the average range for housing need

Market share

2021



Long-term new housing projects (pcs)



2021 19 %

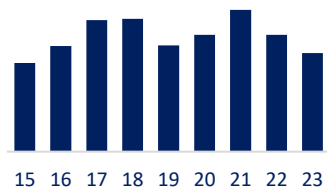
2022e -14 %

2023e -9 %



Projects started in total (pcs)

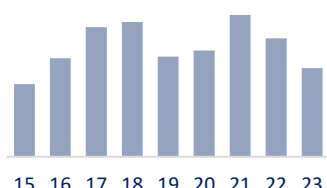
2020: 40,400
2021: 47,300
2022: 41,000
2023: 36,000



High rises

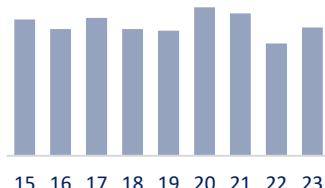
Privately financed

2020: 20,600
2021: 26,500
2022: 22,000
2023: 17,000



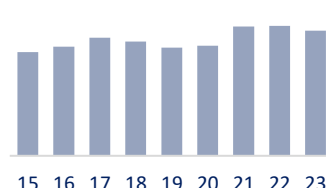
Supported

2020: 9,300
2021: 8,900
2022: 7,000
2023: 8,000



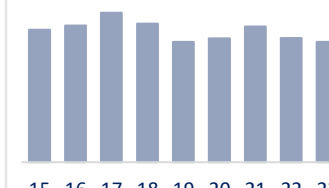
Single-family houses

2020: 6,900
2021: 8,100
2022: 8,100
2023: 7,800



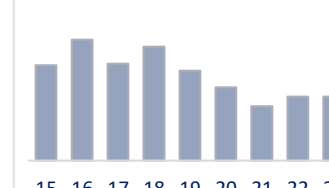
Row houses

2020: 3,100
2021: 3,400
2022: 3,100
2023: 3,000



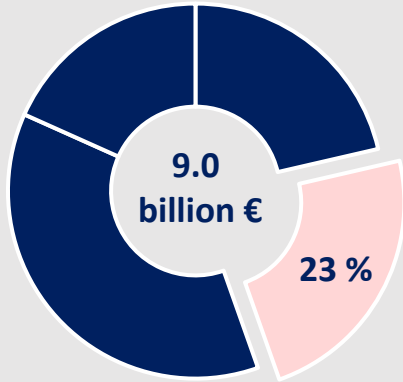
Other buildings

2020: 500
2021: 400
2022: 400
2023: 400

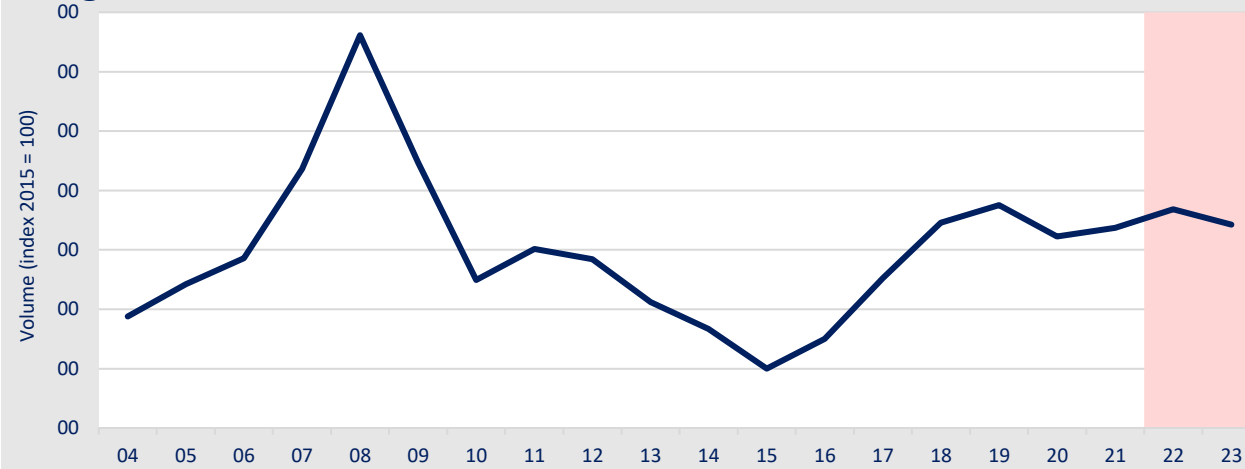


Non-residential construction prospects: slowdown expected next year – big potential in intended

investments
Market share
2021



Long-term new non-residential construction



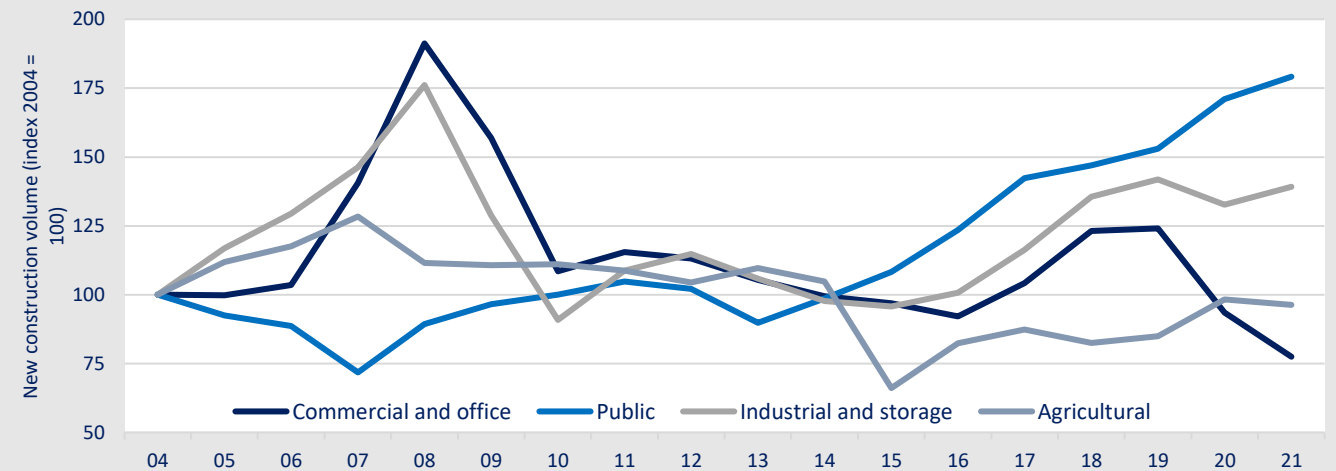
2021 1.2 %

2022e 2.5 %

2023e -2.0 %

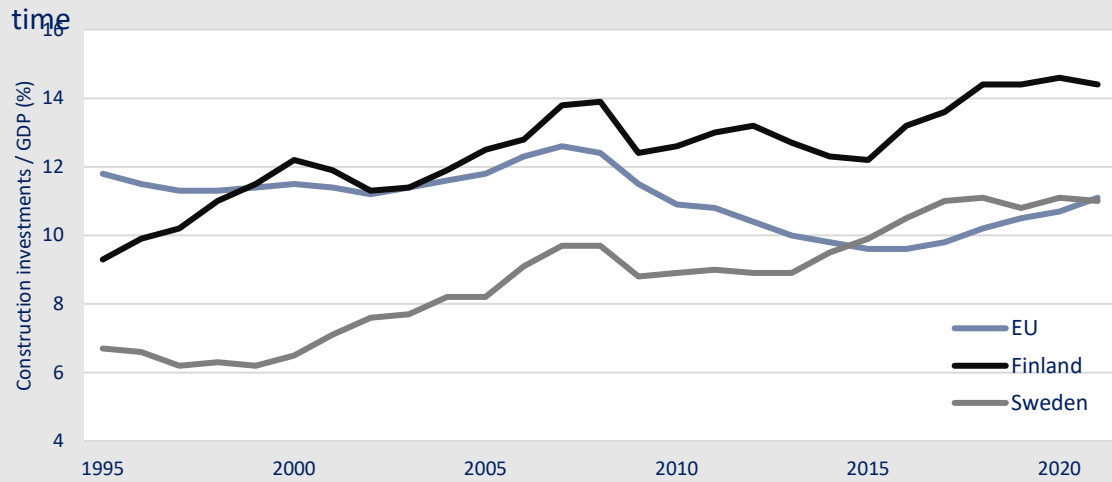
EK investment survey (June 2022)	Annual Change (%)				
	2020	2021	2022	20–21 %	21–22 %
Investment in fixed capital	3,980	5,476	7,358	37.6	34.4
Machinery, equipment, transport equipment	2,297	3,390	4,585	47.6	35.3
Buildings	772	1,275	1,762	65.2	38.1
Other	911	811	1,011	-10.9	24.6
Research and development costs	2,832	2,951	3,099	4.2	5
In total	6,812	8,427	10,457	23.7	24.1

Volume of new construction: the economic boom raised volume from a low level

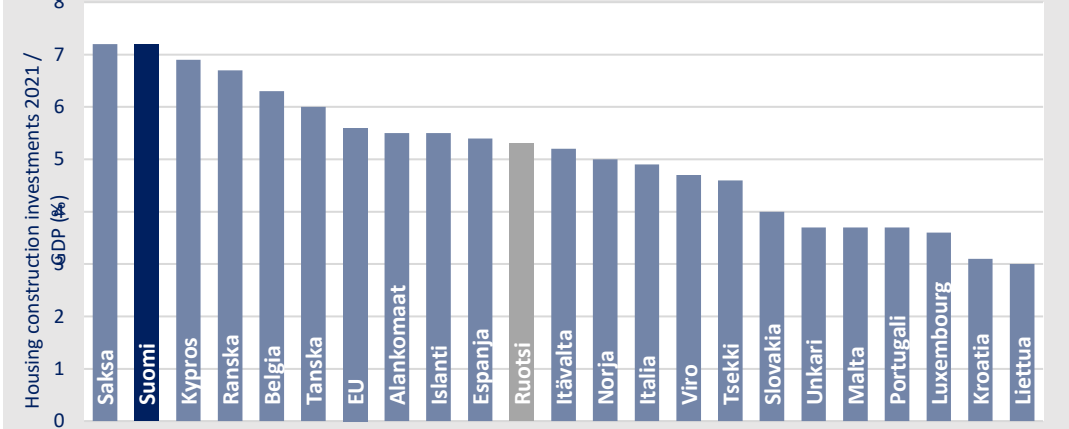


Investment prospects: Finnish construction investments at a high level compared to rest of Europe

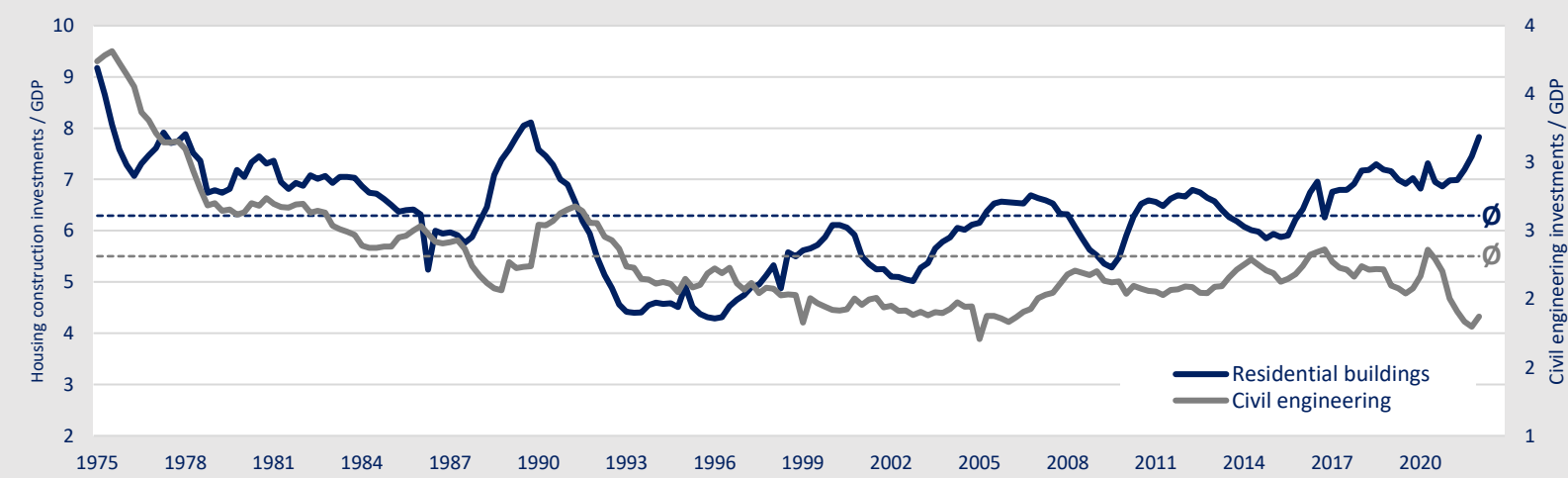
Construction investments in Europe: Finland has been above average for a long time



Housing construction investments: Finland invests in housing more than other countries



Construction investments in Finland: housing investments fluctuate – infrastructure investments remain low



Investments in Finland 2021 (% share)

