

Housing
Production will be halved

Premises
Uptrend will be
postponed

Renovation
Cost crisis will continue

Infrastructure
Will remain in the
negative



After the drop

Housing construction has boosted the Finnish economy and employment for almost 10 years. This year construction will drop to pre-financial crisis levels. Housing production will be halved and will remain weak. Growth is not expected until 2025. Economic problems originating from the housing market have generally proven to have wide-ranging and long-lasting effects. What happens now that housing construction is collapsing?

Scarcity is coming back

Transforming a sparsely populated agricultural society into a developed welfare state has required endless construction. Economic fluctuations in construction are more pronounced than in other industries, and compared to other Nordic countries, Finland has had few periods of steady growth. The last seven years have been an exceptional period of prosperity, but now the construction sector is facing its third major downturn in post-war economic history.

All construction is done with debt money. The construction cycle is driven by money markets and government fiscal policy. Together with the cost level, they determine how many of the available construction projects are profitable at the prevailing price level. Add to this an equally stringent regulatory regime, and right now very few projects are viable.

The weakness in the housing market will continue for a long time to come, and it will not be a problem just for builders. Economic crises originating in the housing market have tended to be bigger and longer-lasting than, for example, stock market crises.

The housing market tends to reinforce the prevailing business cycle. In a downturn, housing prices fall and households have less scope for consumption. Investors, who have played a major role in recent years, are especially more likely to sell their homes than owner-occupiers, thus further weakening the housing market. The reason behind the drop in prices is the central banks' good intentions to stem inflation with interest rate hikes, but the result of these can be a prolonged economic downturn, especially in a country like Finland.

There is plenty of housing available right now. Zero interest rates and pent-up demand after the financial crisis kept housing production high until last year. However, in a bad economic climate, the number of new housing developments is quickly cut back, and this is reflected in a delay in completed housing projects. According to current forecasts, the supply of new apartments will fall to the level of the 1940s in the next couple of years.

However, the need for housing has not disappeared and the underlying drivers of demand are strong for the coming years. Urbanisation has continued stronger than forecast, and incomes are growing rapidly. The drop in housing supply is poison for the labour market. Scarcity increases the price of housing and slows down labour mobility and people's ability to build the life they want in the place they want. The increasing price hit indebted households, i.e. families with children and first-time homebuyers, the hardest.

However, this can be influenced by policies. That is why Europe is now preparing rescue packages for the real estate and construction sectors. RT also presented the government budget session with ways to increase demand, supply and confidence, which were found to be good in the previous recessions.

Seven fat years give way to scarcity. In Finland, the government's recent budget proposal will not change this significantly.

"Basic need for housing has not disappeared. Urbanisation has continued stronger than forecast, and incomes are growing rapidly."

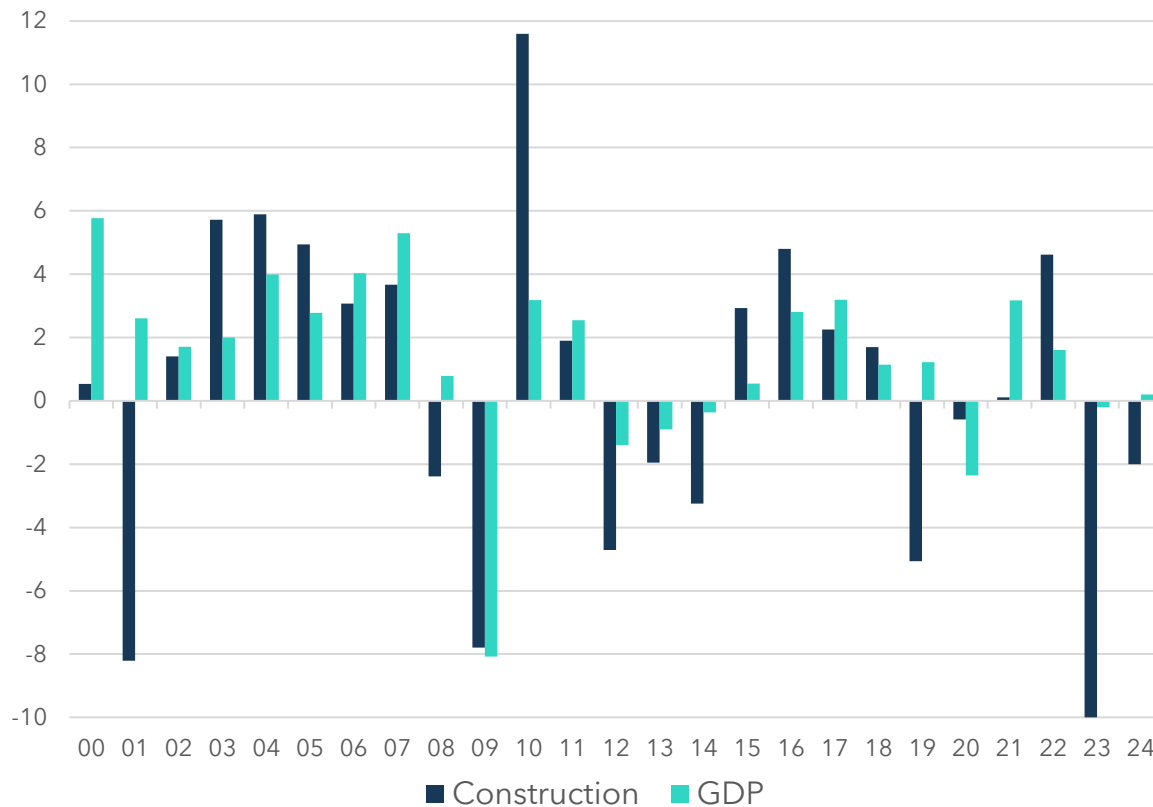


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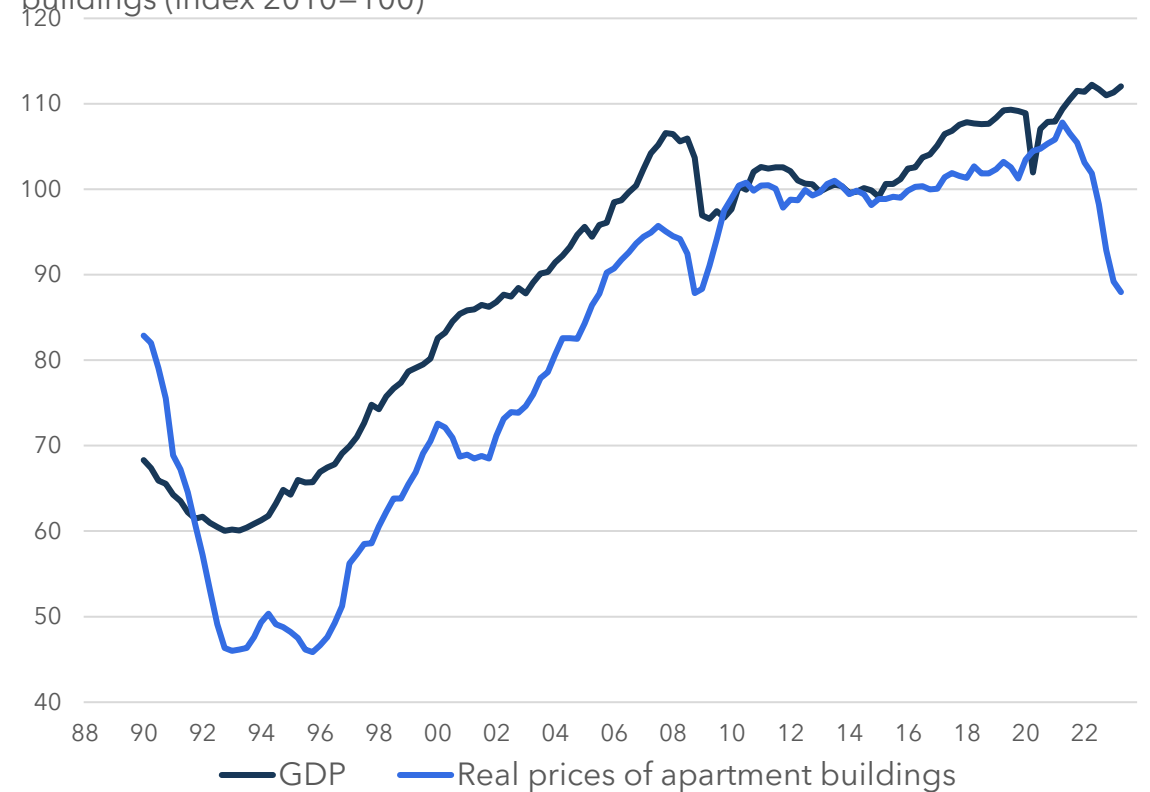
There is a big imbalance in the economy and construction

Housing market crises have always been more difficult than other economic crises

The economy and construction go in different directions Annual Change (%)



The economy and the housing market are going in different directions GDP and prices of apartment buildings (index 2010=100)

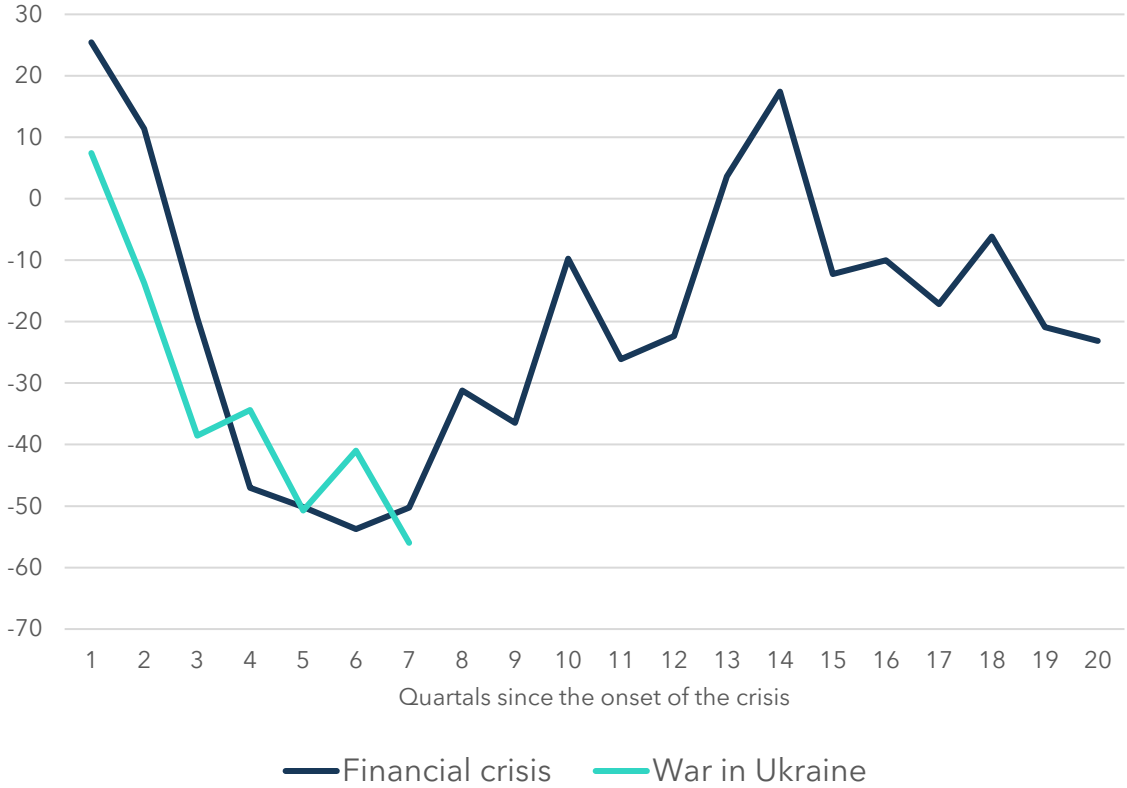


Exceptionally weak outlook for the construction sector

Indicators predicting the economic cycle have fallen below the level of the financial crisis

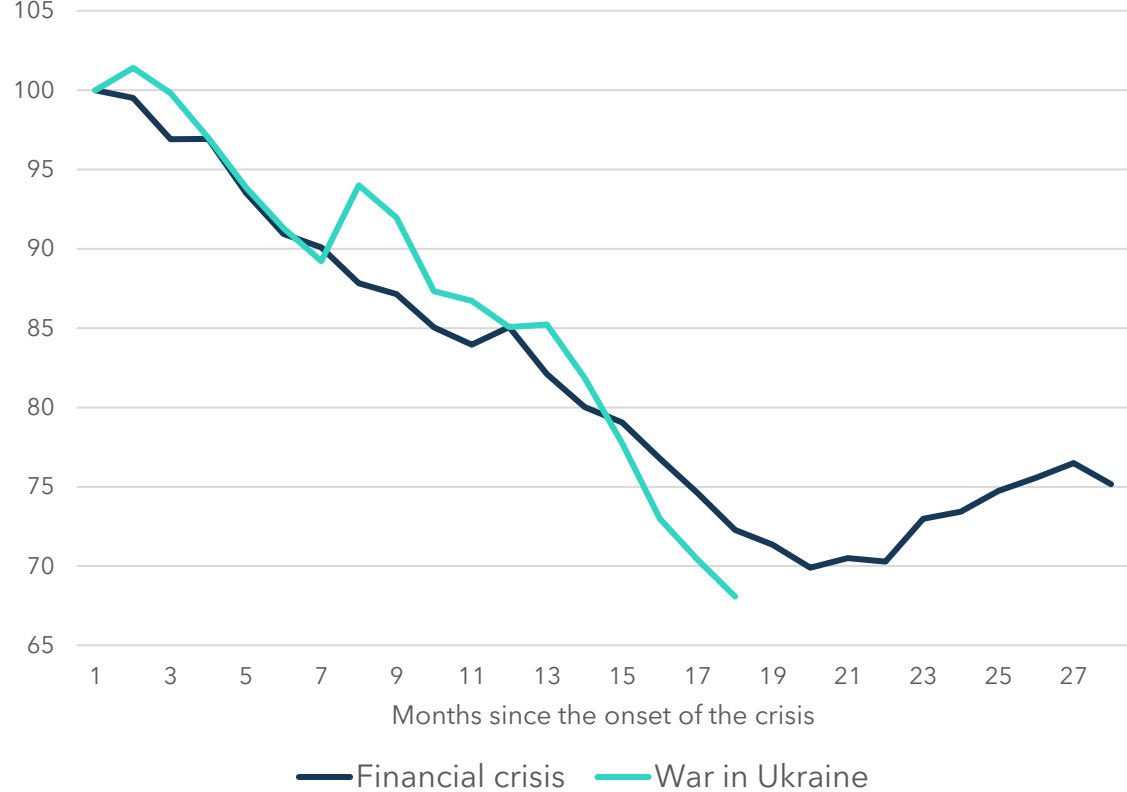
Outlook exceptionally weak

The economic situation of companies (index)



The steepness of the decline in permits undercuts the financial crisis

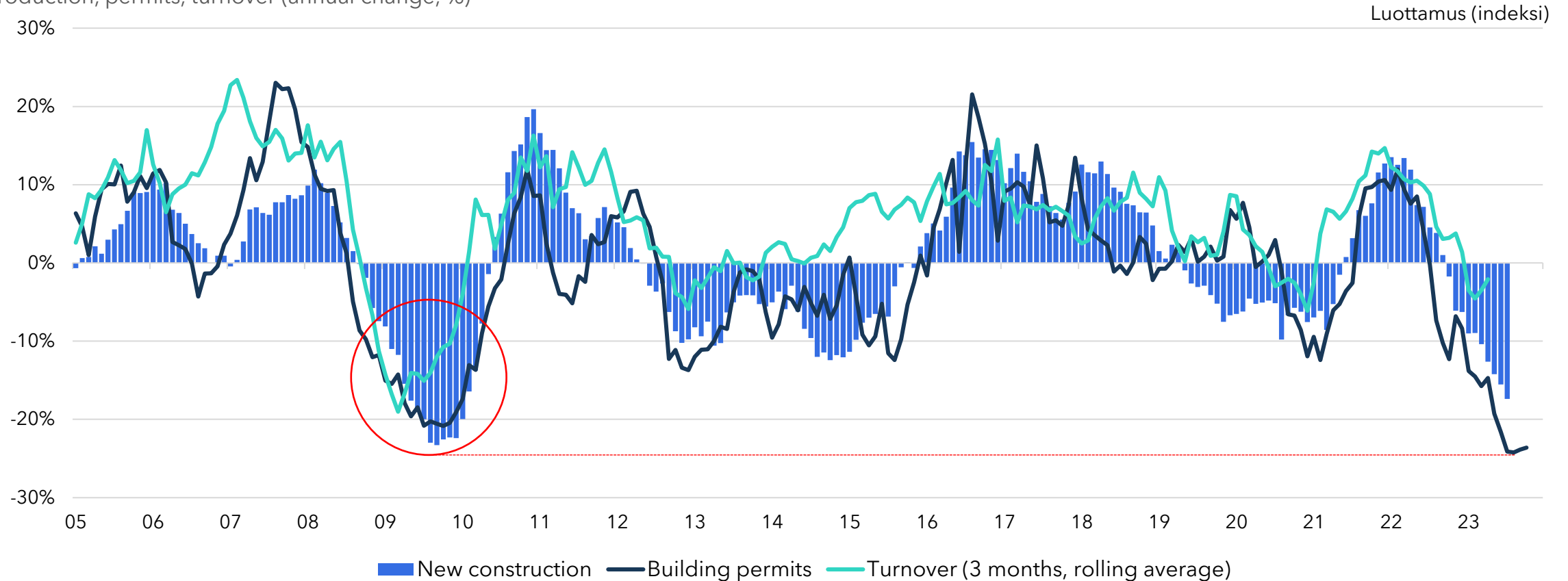
Permits issued indices 01/2008=100 and 01/2022=100



The steep decline in current production will continue for a long time

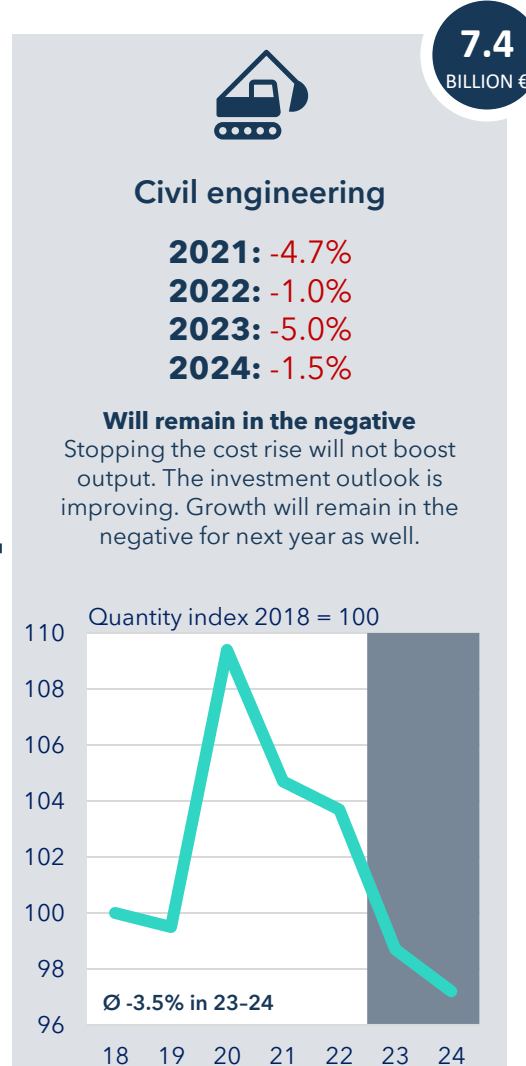
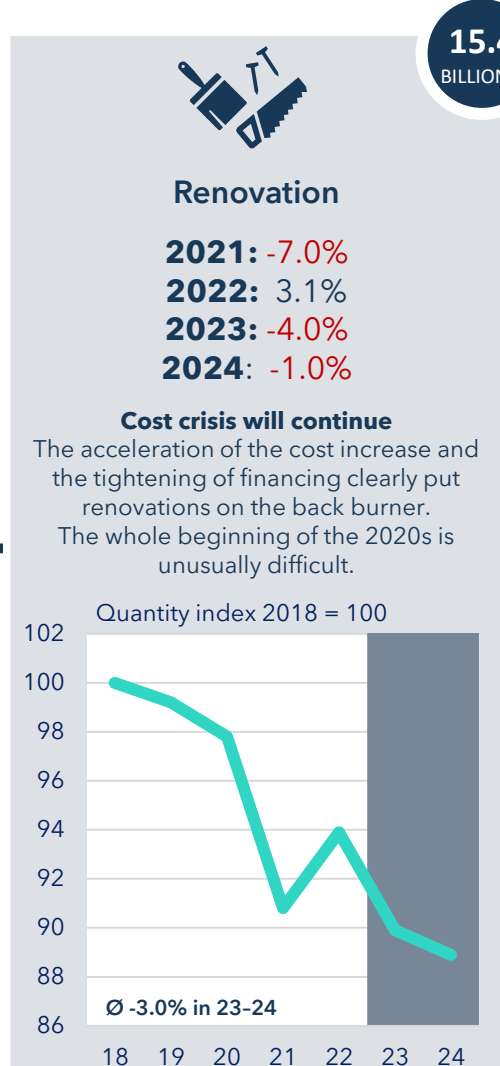
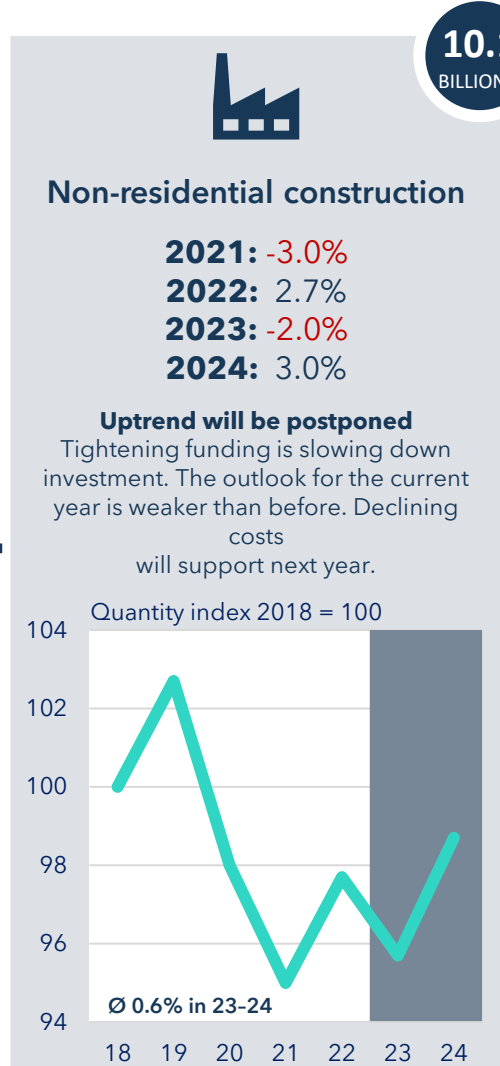
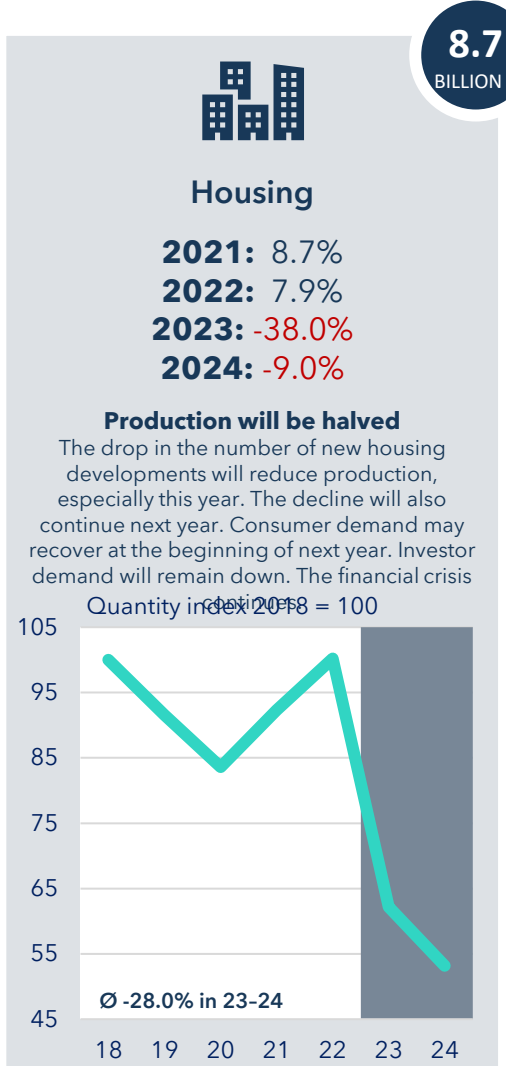
The drop in permits predicts a sharp drop in production

Production, permits, turnover (annual change, %)



Construction in 2023-24: construction will decrease drastically - no growth until 2025

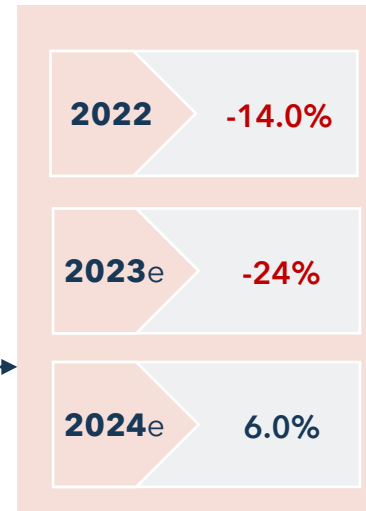
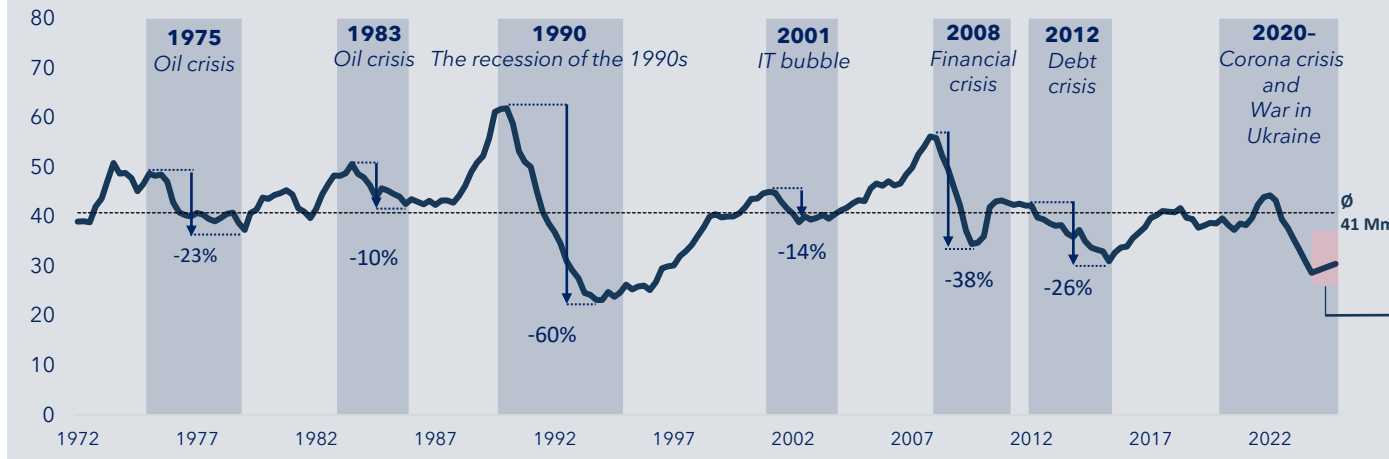
2022
in total
41.5
BILLION €



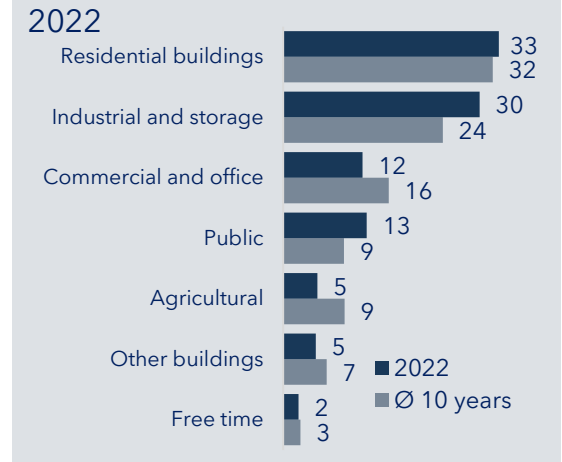
= CONSTRUCTION IN TOTAL*: 2022e: +4.6% 2023e: -10.0% 2024e: -2.0%

On new developments: remains at a low level – a big drop is followed by only a weak rise

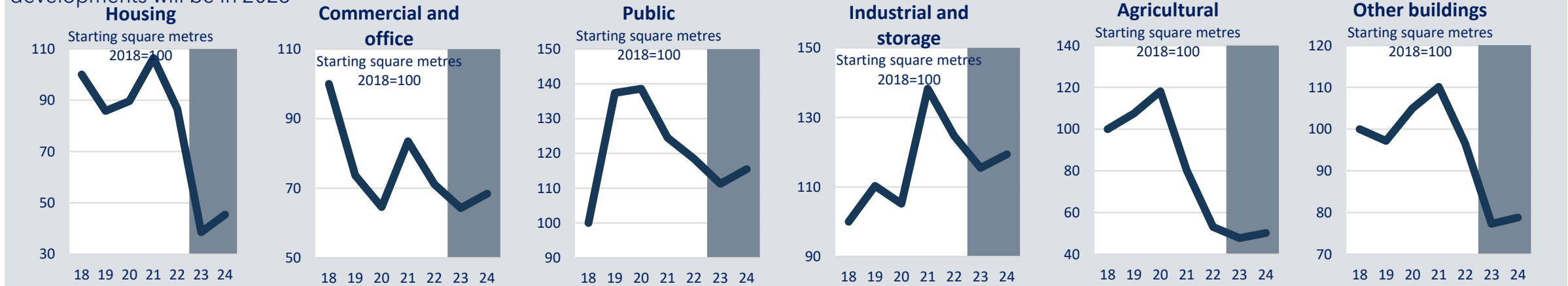
Long term starting cubic metres (million m³)



Market shares

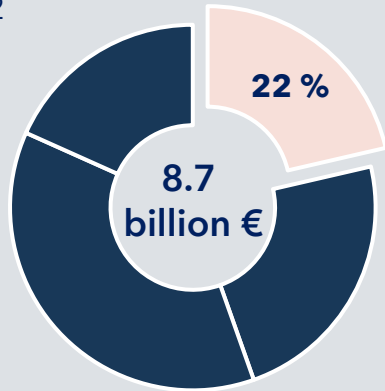


An outlook of the types of construction: next year there will be a slight increase from different points of view – the biggest drop in the number of new developments will be in 2023

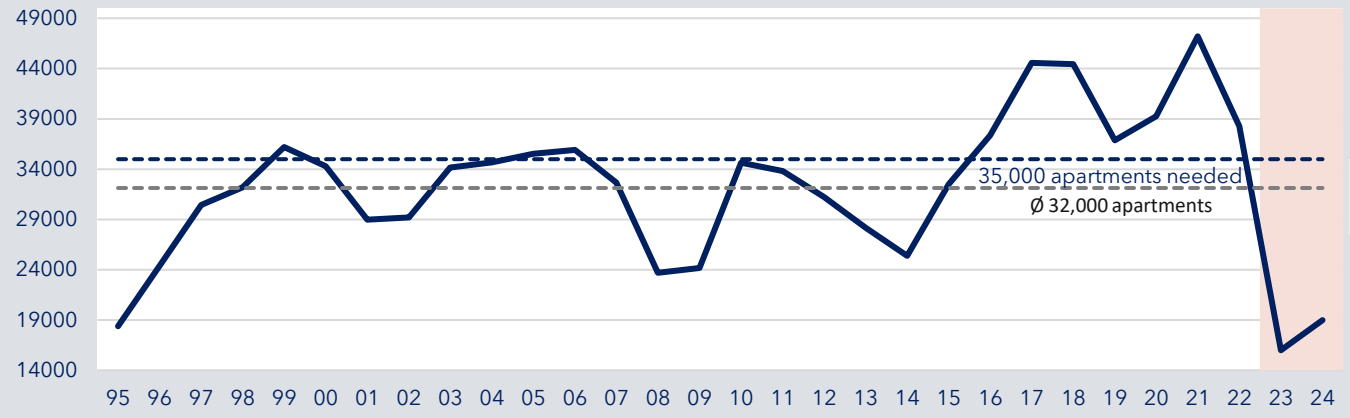


The outlook for housing construction: production will be halved – next year will still remain at a miserable level

Market share
2022



Long-term new housing projects (pcs)



2022 -21 %

2023e -57%

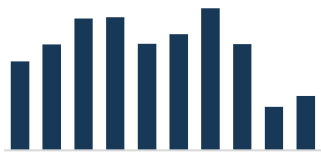
2024e 22 %



Projects started

in total (pcs)

2021: 47,200
2022: 37,300
2023: 16,000
2024: 19,500



15 16 17 18 19 20 21 22 23 24



High rises

Privately financed

2021: 26,500
2022: 20,900
2023: 3,800
2024: 5,000

Supported

2021: 8,900
2022: 5,600
2023: 7,000
2024: 8,500

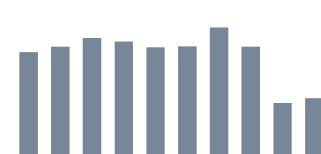


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Single-family houses

2021: 8,000
2022: 6,800
2023: 3,300
2024: 3,600

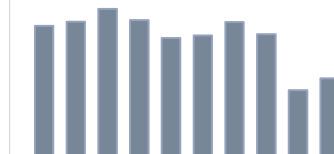


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Row houses

2021: 3,400
2022: 3,100
2023: 1,700
2024: 2,000

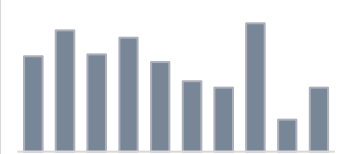


15 16 17 18 19 20 21 22 23 24



Other buildings

2021: 400
2022: 800
2023: 200
2024: 400



15 16 17 18 19 20 21 22 23 24