

Waiting time is long

Construction has fallen from the growth locomotive during zero interest rates to the biggest brake on the Finnish economy. A turn in construction is eagerly expected everywhere. Construction minuses will decrease towards the end of the year. However, the actual turn is not yet at hand. Recovery will also be exceptionally slow in the next few years. Production will remain a long way from what we were used to.



Waiting time is long

Construction has fallen from the growth locomotive during zero interest rates to the biggest brake on the Finnish economy. Everyone is now waiting for a turn in construction. Households need new apartments. Investors would like to invest, banks to loan and constructors to build. The media and the general public would like to hear good news from the construction sector. Interest rates are falling on both sides of the Atlantic, and the bottom touch of the Finnish economy is behind us. Construction always reacts to the rest of the economy. Is the turn in construction at hand now?

Long minuses also decrease in construction. However, little is happening in the Finnish economy from the perspective of construction. Economic indicators are still mainly below zero. The wished-for better end of the year built is still a poor comfort for constructors waiting for the time after the deep crisis. Of course, projects are being prepared. But people are playing it safe now.

There are tools for recovering in the housing sale. Instead, the construction of new apartments still has many hindrances. Free-funded housing construction continues to be paralysed, and this year, state-subsidised production, which has been raised counter-cyclically, will be reduced by thousands of apartments, starting next year. There is no substitute for free-funded demand in this situation. It is not possible to change baton between supported and free-funded construction. Housing production will remain at a low level. The building of premises will only be speeded up properly as the international real estate market recovers and investors become interested in Finland again. In industrial investments, the main rule in recent years has been transition. There are fortunately still many projects. Constructors have little faith in receiving projects in Finland. There are preconditions for the recovery of renovation construction. However, funding outside growth regions remains challenging. It seems reasonable that infrastructure construction has seven better years ahead. Geopolitics and the energy transition shape the operating environment significantly. However, ambition and funding do not correspond to the Nordic strategic level.

In our forecast, construction will grow next year. In practice, growth is generated due to the weak comparison figures after the collapse. So we still have to wait for a proper turn.

The real problem is here: Finland will not be on a proper growth path in the future either. A slow-moving economy and high interest rates make the recovery of construction slow. The uncertain waiting period will continue in the next few years, and the volume of construction will remain unusual. Construction is at the core of the economy and well-being.

Finland now has to cope with less construction than usual. In order to boost economic growth from the present situation, it would be sufficient simply to get construction on its feet. Long-term growth cannot be achieved if construction is broken more permanently while waiting. The responses of the economic policy to this equation have so far been limited. A country that does not construct well is not doing well. Waiting time is getting too long. An empty site is expensive for everyone.

"Empty site
becomes expensive for
everyone"



Jouni Vihmo
Chief Economist
jouni.vihmo@rt.fi
050 5201636
X: @jounivihmo

**A country that is built well is a country
that feels well.**

Overview of topical construction themes

No turn

The bottom touch of the Finnish economy is at hand. However, little is happening in the economy from the perspective of construction. Construction production will fall throughout the year and employment will fall far into the next year. There are tools for recovery in the housing sale. The construction of new apartments still has many hindrances. In order to boost economic growth, it would be sufficient simply to get construction on its feet. The recovery of construction will be very slow in the next few years. The level of production will remain far from normal.

Economic situation

Brighter future

Production

Will decrease whole year

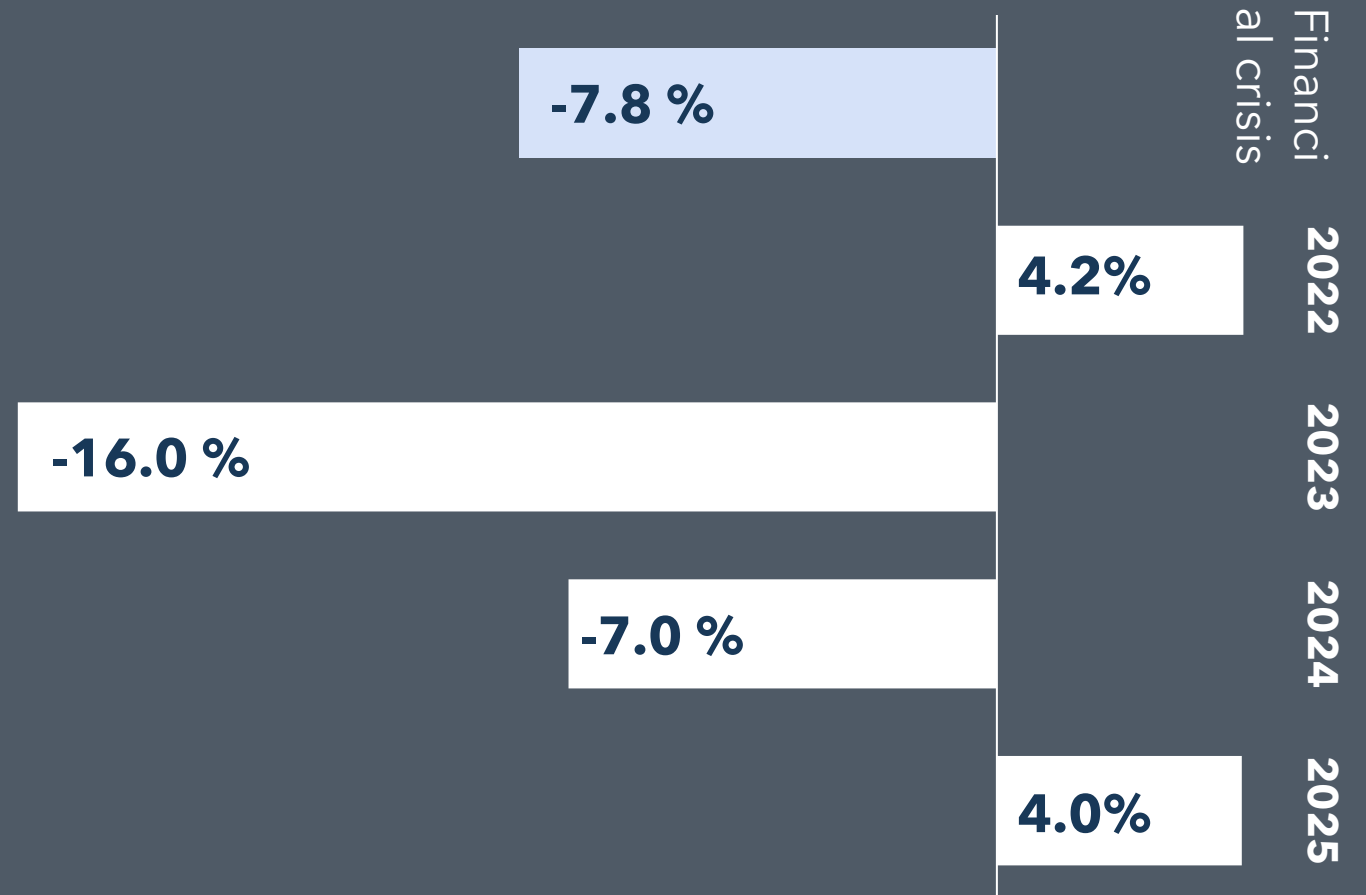
Housing market

Tools for recovery

Housing new construction

Many hindrances ahead

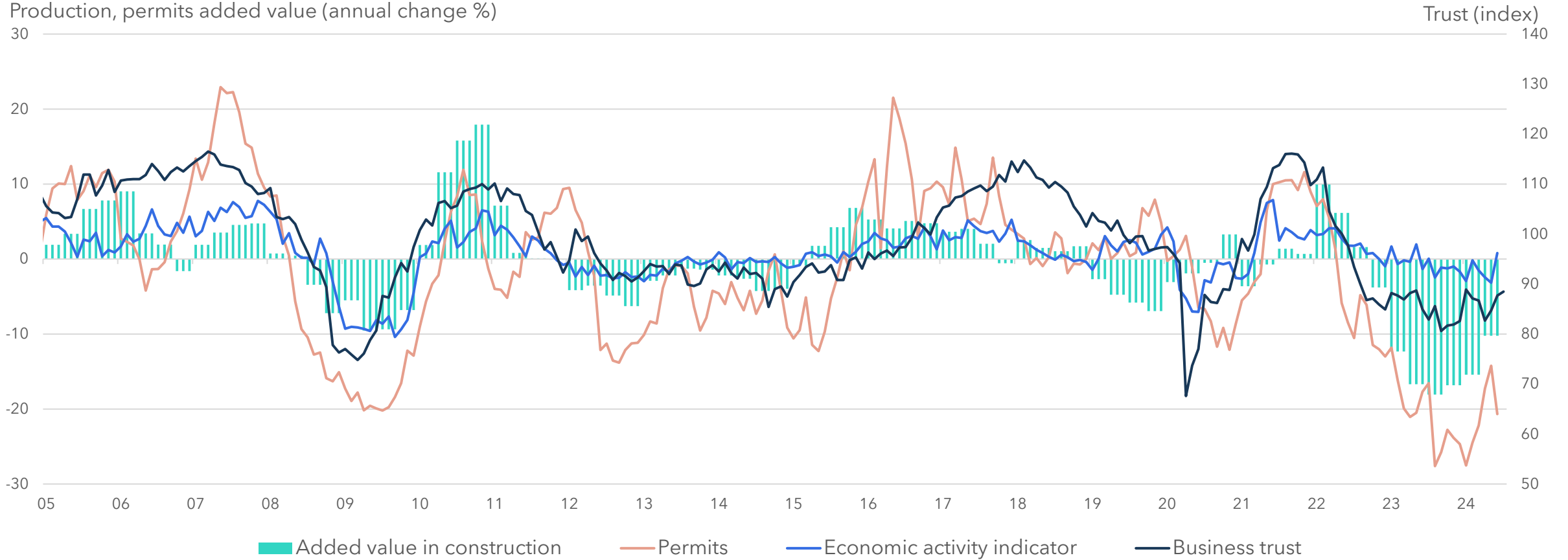
Added value in construction



Zero growth and poor trust are not yet a turning point

Construction growth requires trust and faster growth

Production, permits added value (annual change %)



Production of apartment blocks almost entirely state-subsidised

Free-financed production is still in difficulty

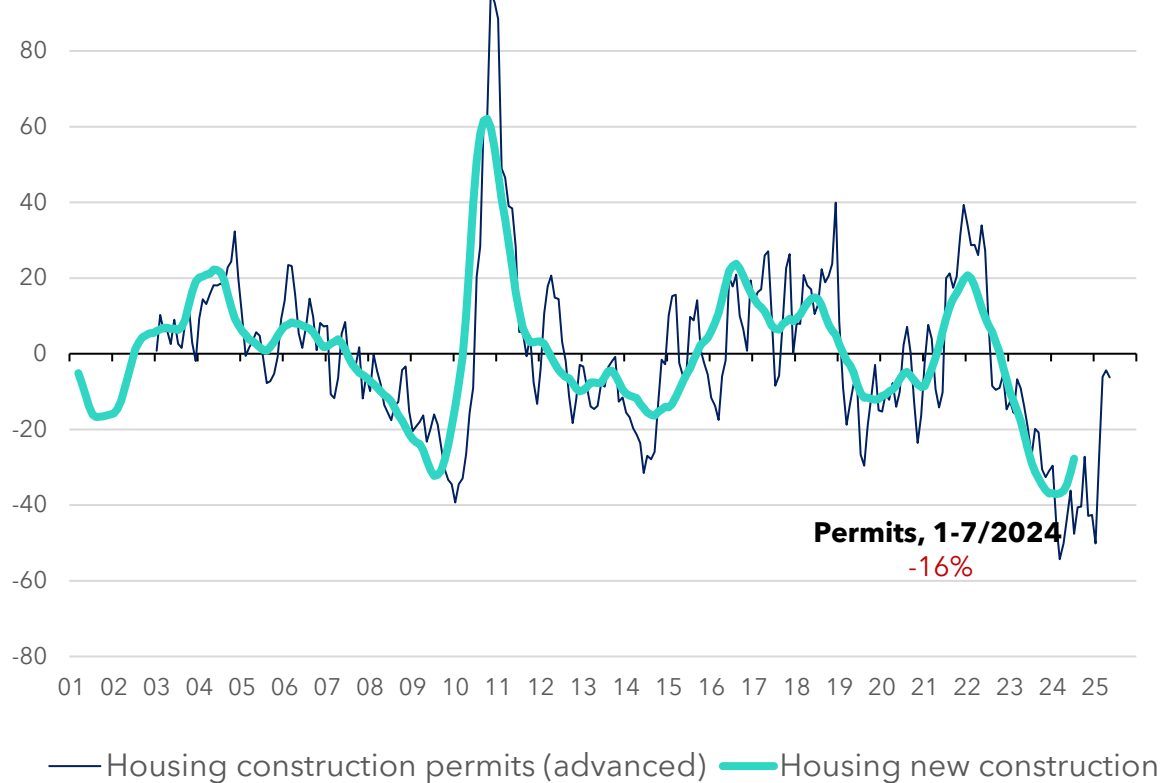
Housing production is still down

Number of started apartment blocks



Decrease in housing production continues throughout the year

Annual change in permits and new construction (%)

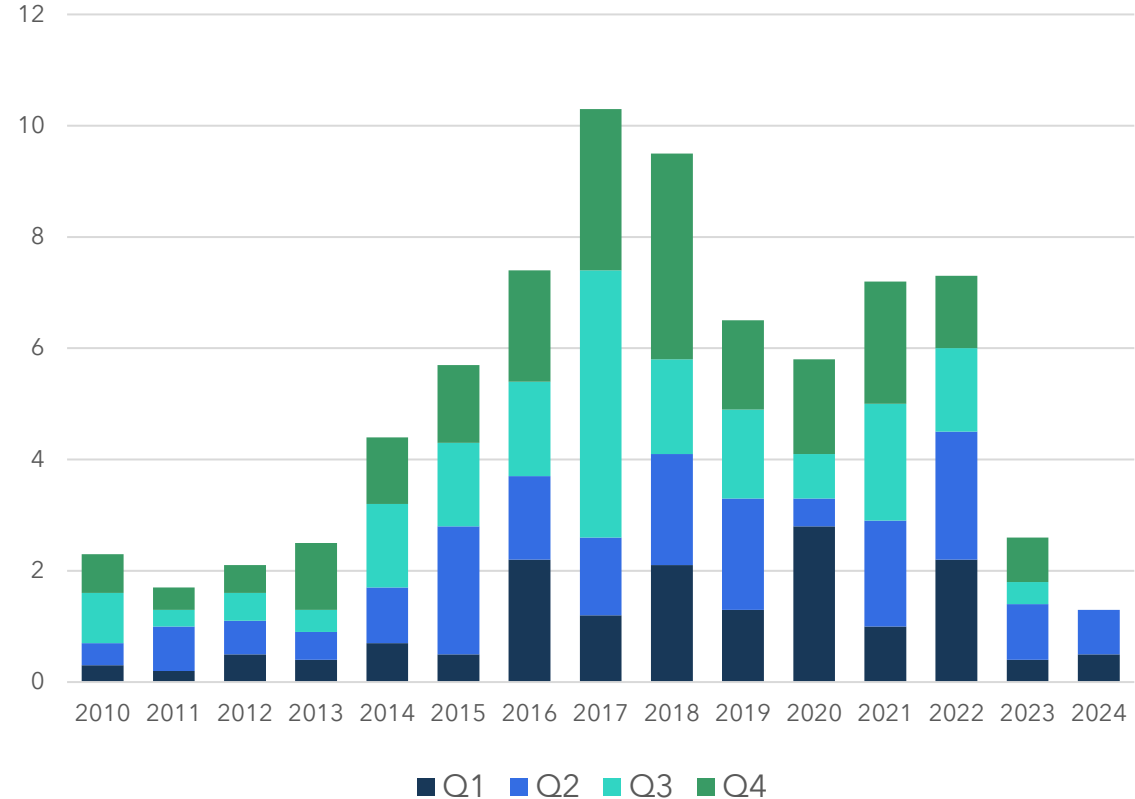


Poor development in premises

Recovery will only accelerate as the international real estate market picks up and investors return to Finland

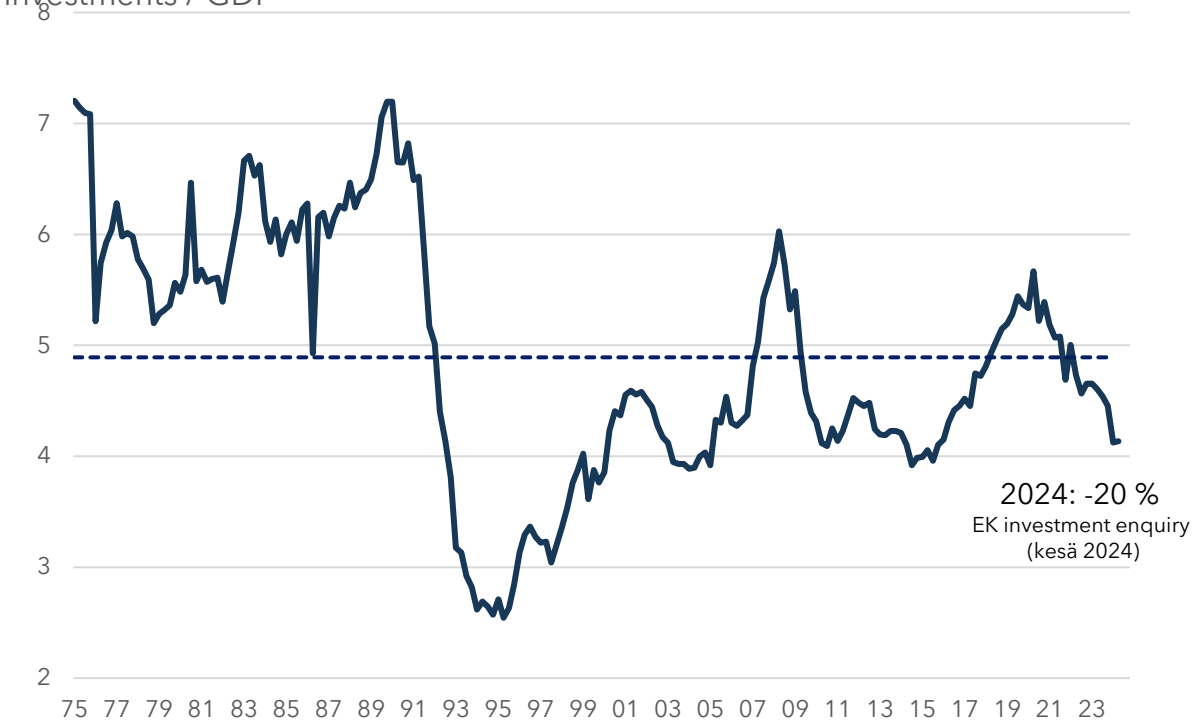
The silence of the real estate market continues

Significant real estate transactions (EUR billion)



Investments in premises at the levels of the financial and euro crisis

Investments / GDP

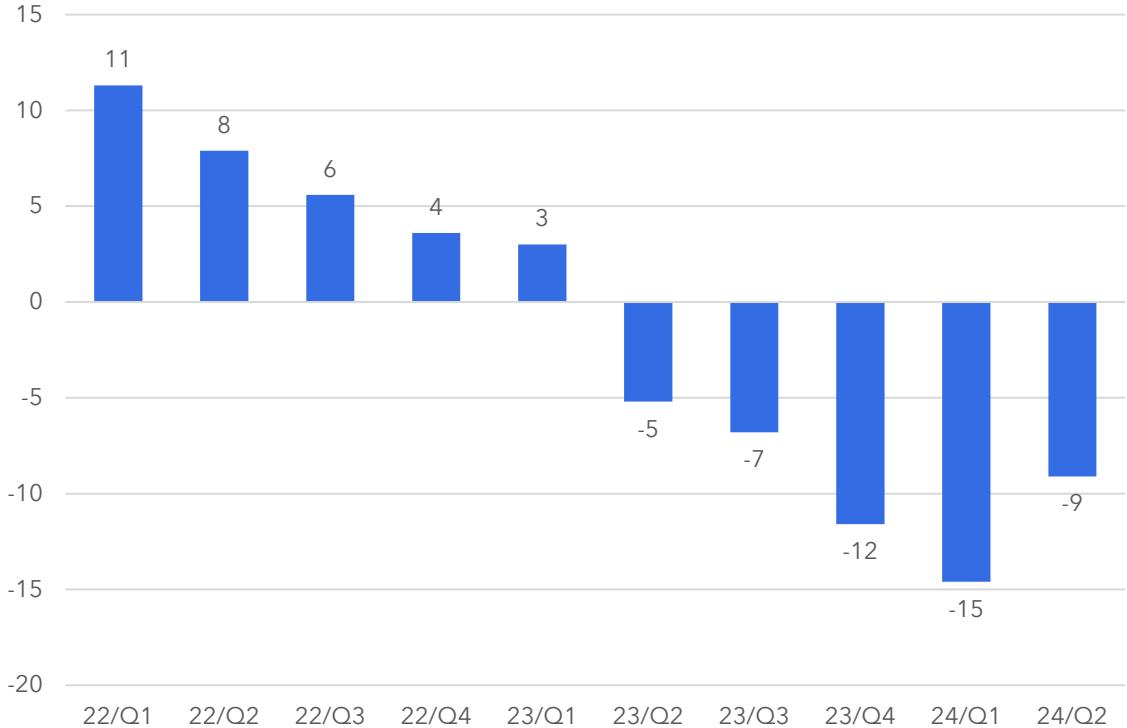


Repair is diving - the positive trend in infrastructure is depleted

The 20th century of repairs exceptionally sticky - infrastructure construction declining for 3 consecutive years

Repair has decreased by five quarters

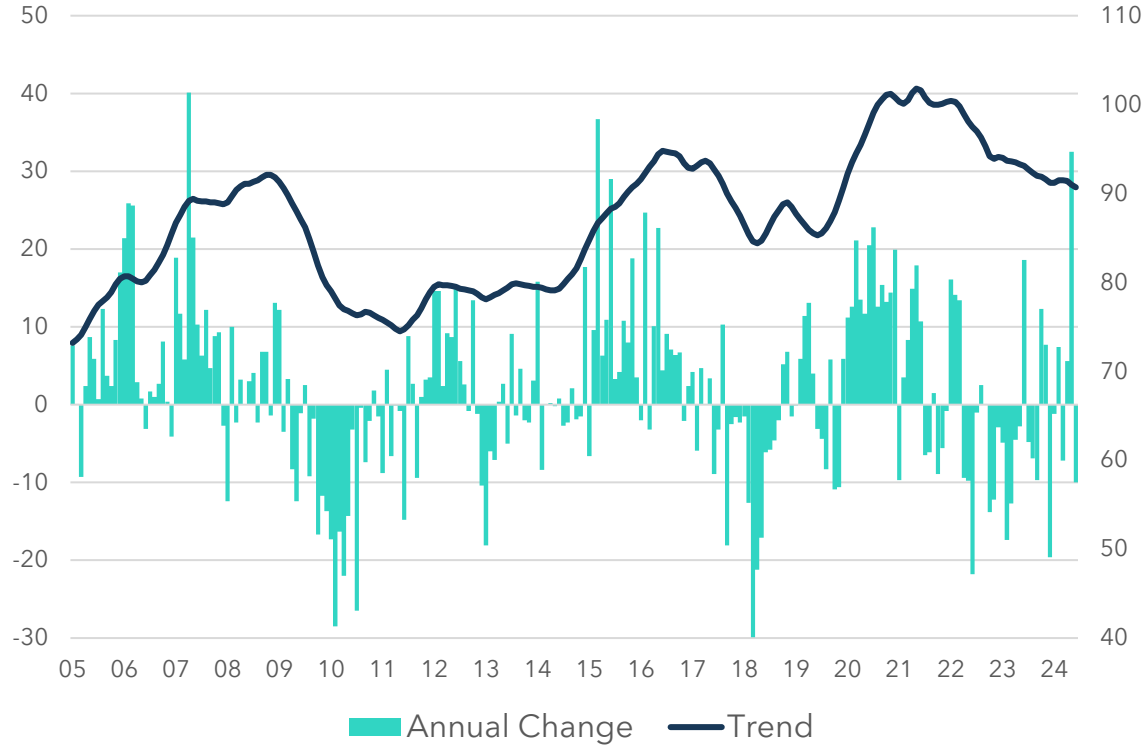
Annual change in value (%)



Small growth in infrastructure at the beginning of the year

Volume trend (2021=100)

Annual change in volume (%)

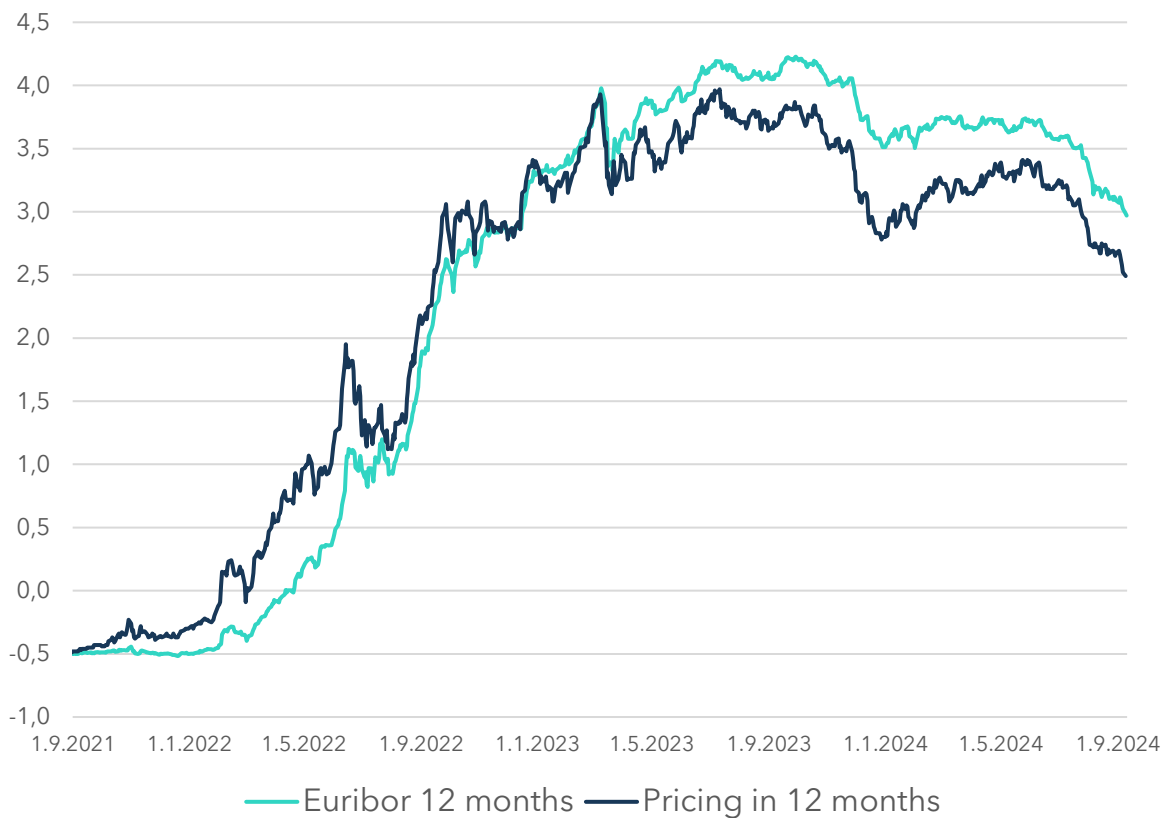


Conditions for the recovery of the housing market

An upward trend in housing sales continues

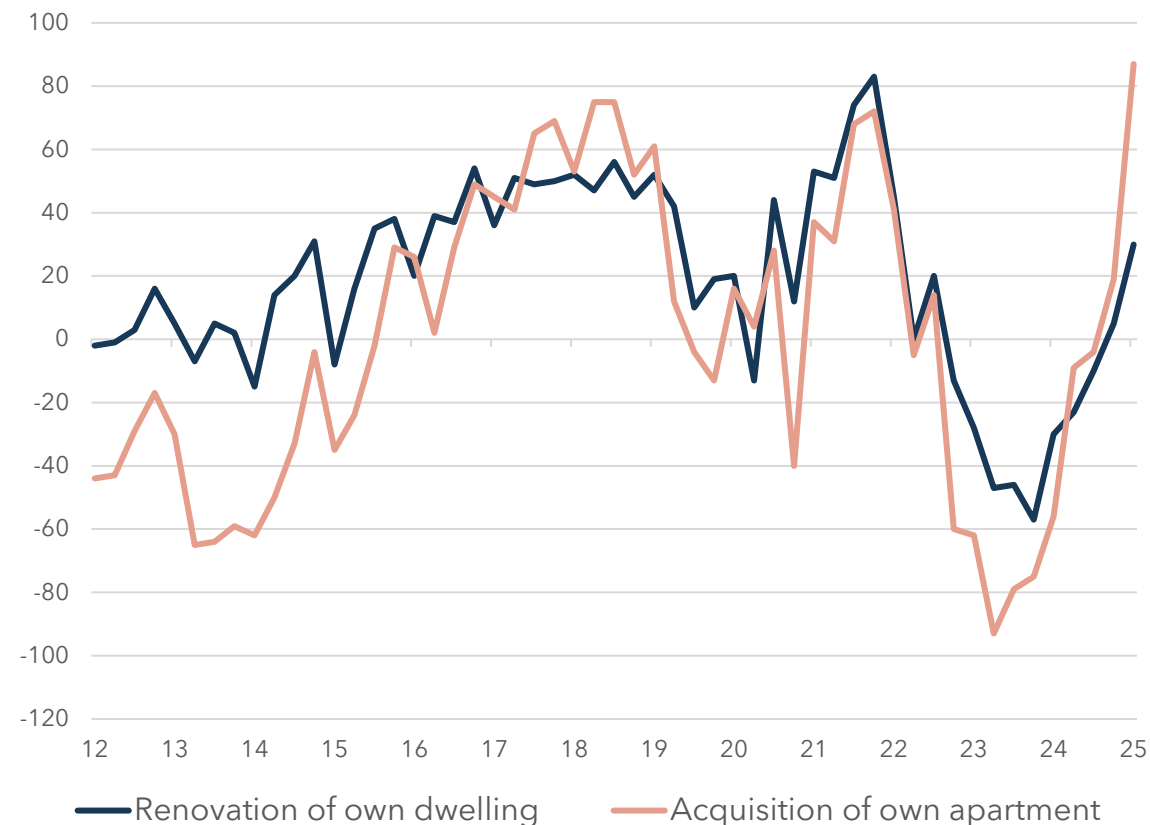
Interest and expectations declining

12-month Euribor and pricing in 12 months (%)



Loaning gets better

Balance (advanced by 3 months)

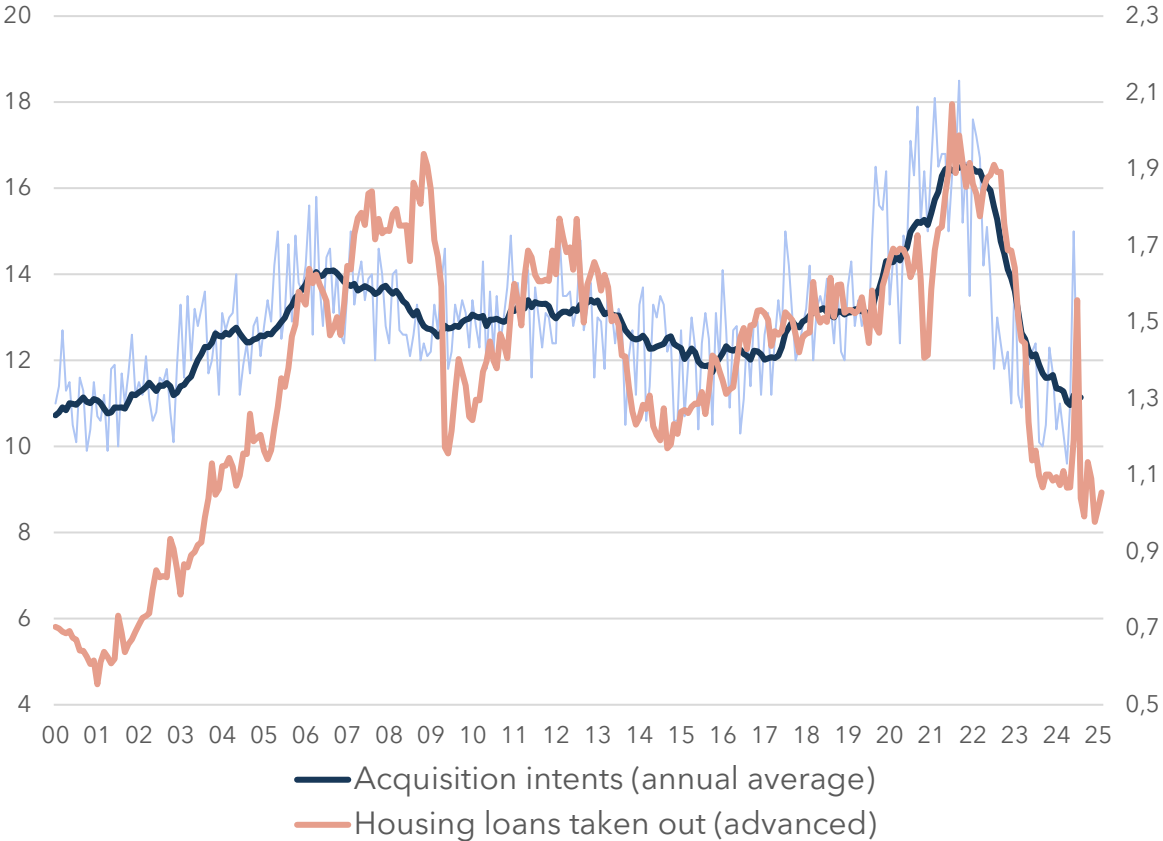


Poor rest of the year for the housing market?

Rapid fall in interest rates stimulates the housing market – the level of activity is exceptionally low so far

Mortgage at the same level as 20 years ago

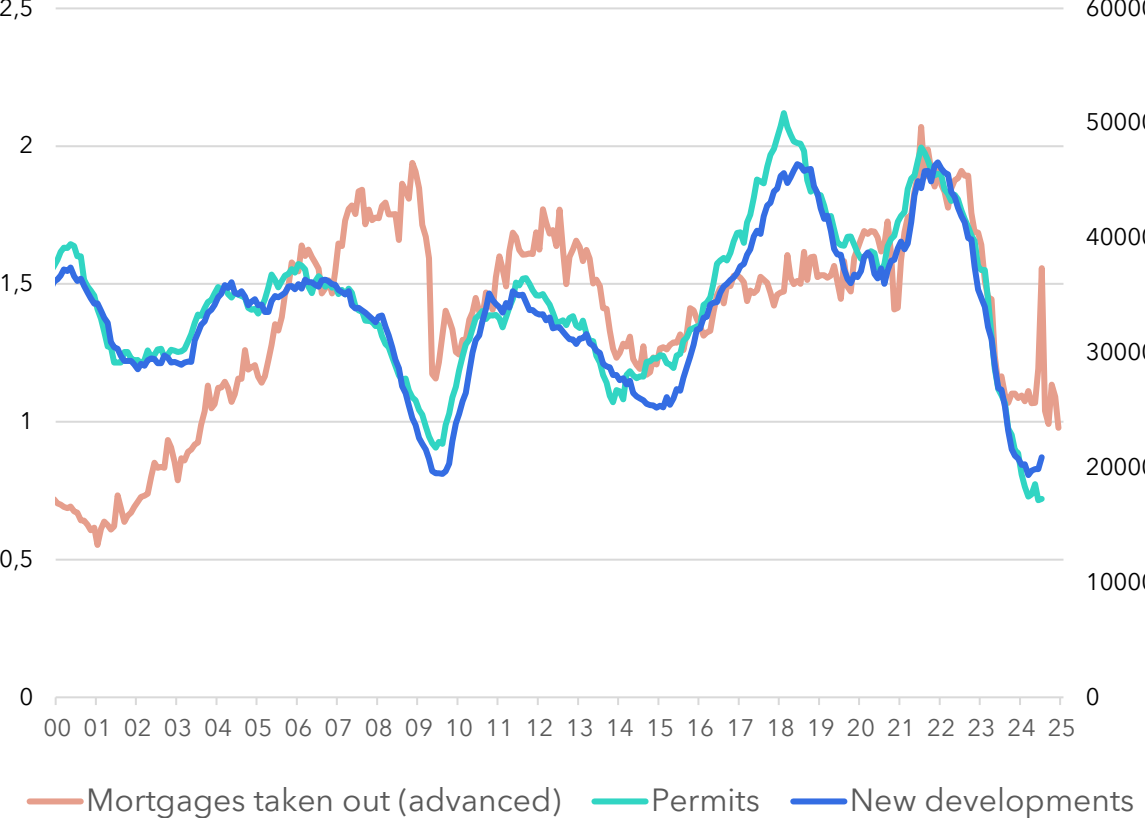
Acquisition intent and annual level (% share, index)



Household demand does not support recovery

New mortgages (EUR billion)

Permits and starts (annual level)

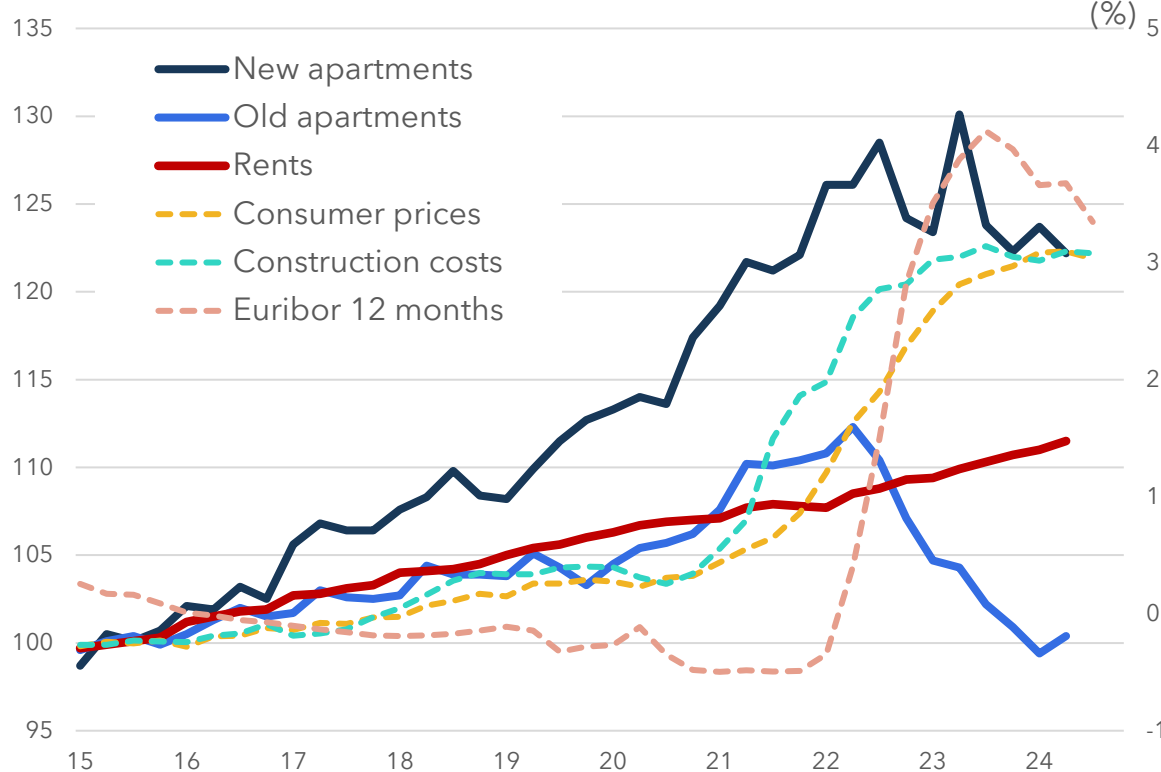


The investor's equation is still broken

Decreasing costs and interest make room - oversupply and poor rent development still slowing down

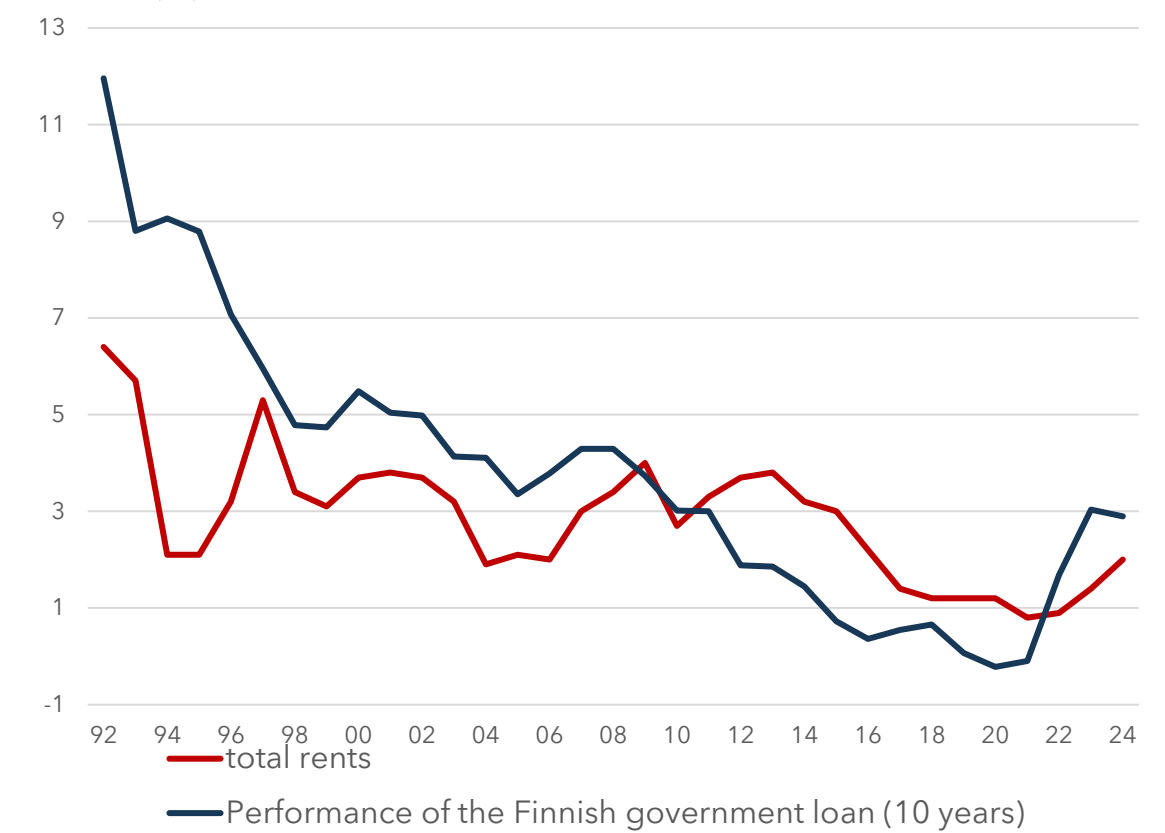
Housing investor equation does not expire

Indexes 2015=100



Residential builder's negotiating position is weak

Revenue (%)



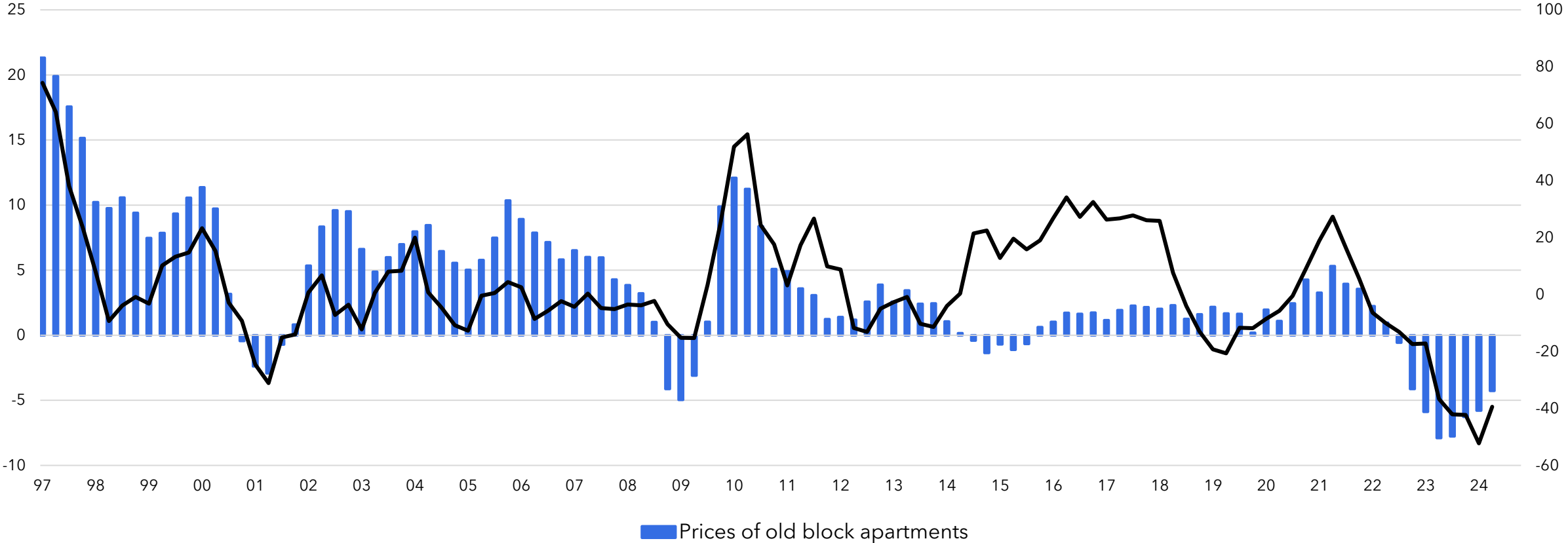
Lower housing prices make projects unprofitable

Returning to higher prices takes several years

Lower price of old capital does not encourage starting projects

Apartment prices (annual change %)

Permits for apartments (annual change %)

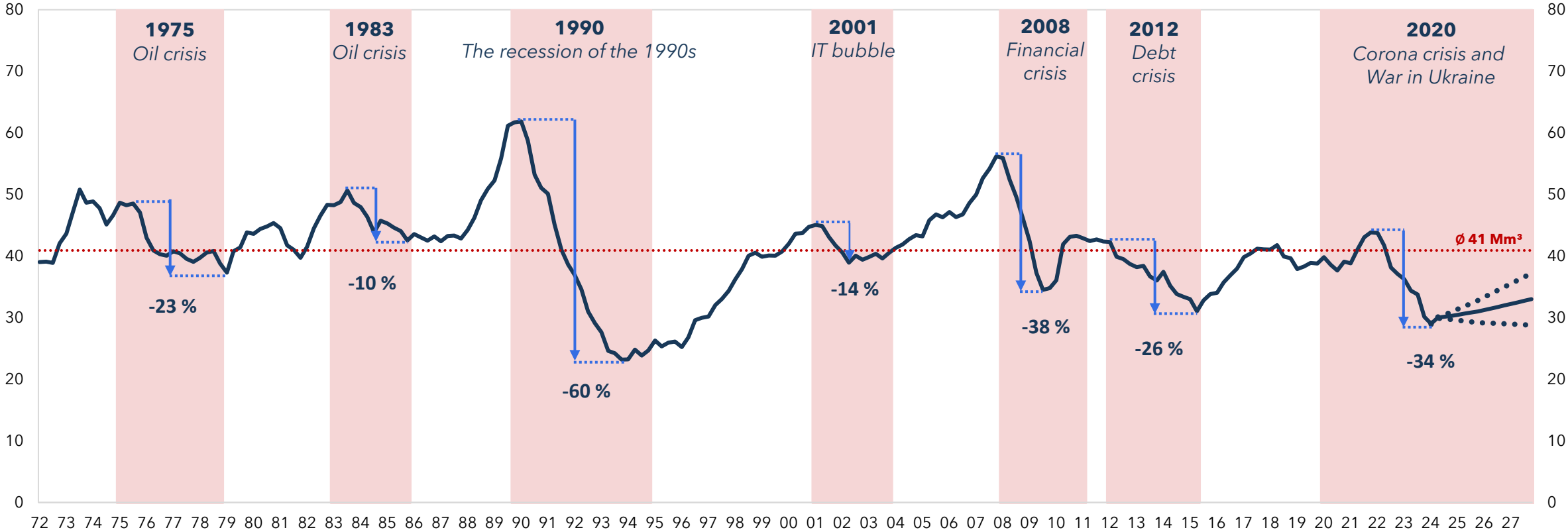


Level of construction will remain unusual in the next few years

Interest rates higher than before and the Finnish economy is not on a path that supports recovery

Construction recovers very slowly

Starting cubes (Mm3)



Overview of construction in 2024-2025

Recovery is exceptionally slow

There is no prospect of a return to the standard level of production. Subsidised housing production will decrease with thousands of apartments as market-based production begins with a delay. It is not possible to change the baton between state-subsidised and market-based production. Housing production will be staying down. The growth of premises will only accelerate as the international real estate market picks up and investors are again interested in Finland. There are preconditions for recovery towards the end of the year. Infrastructure has the potential for more permanent growth led by geopolitics and the energy transition.

Housing

Subsidised production
will halve

Premises

At the mercy of others

Renovation

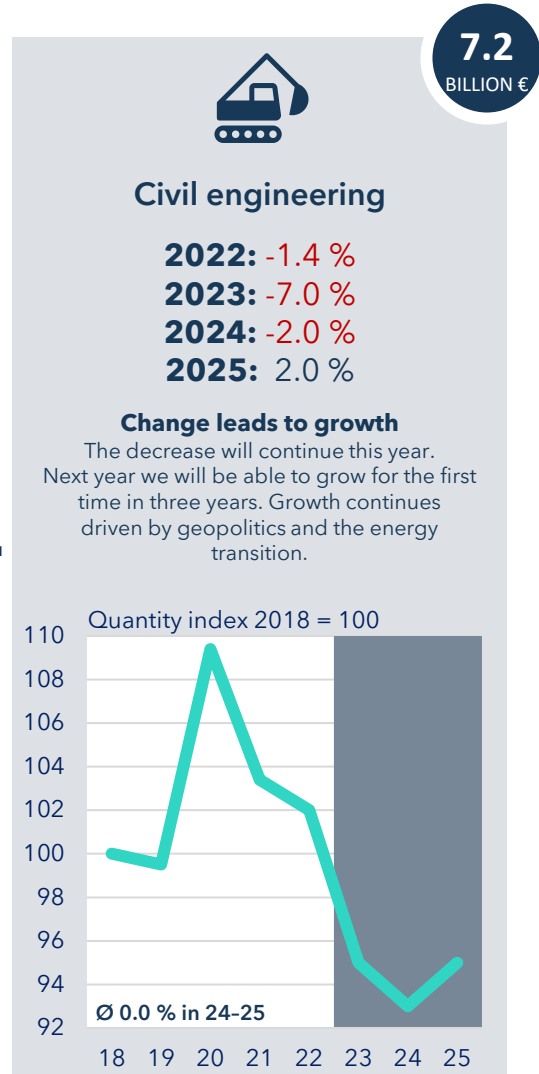
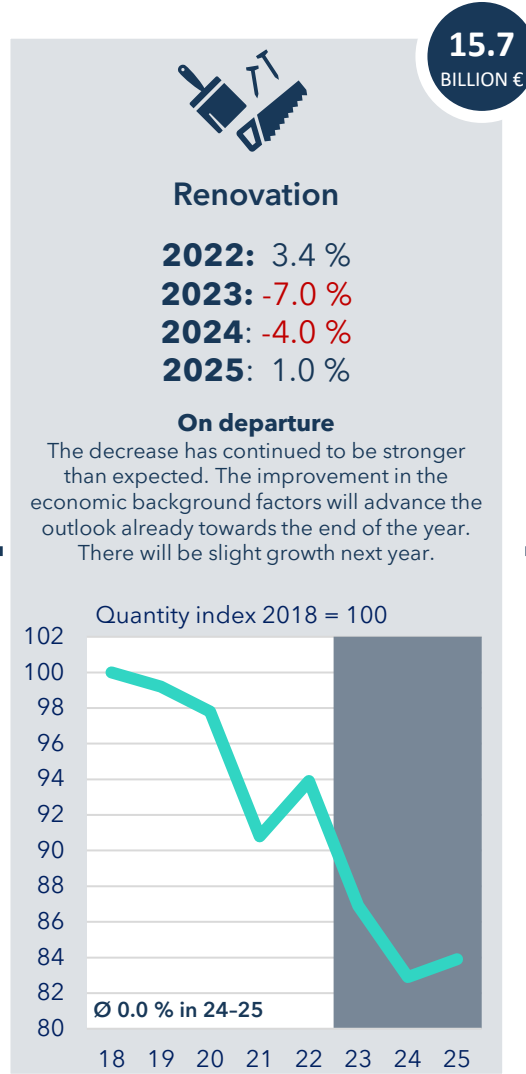
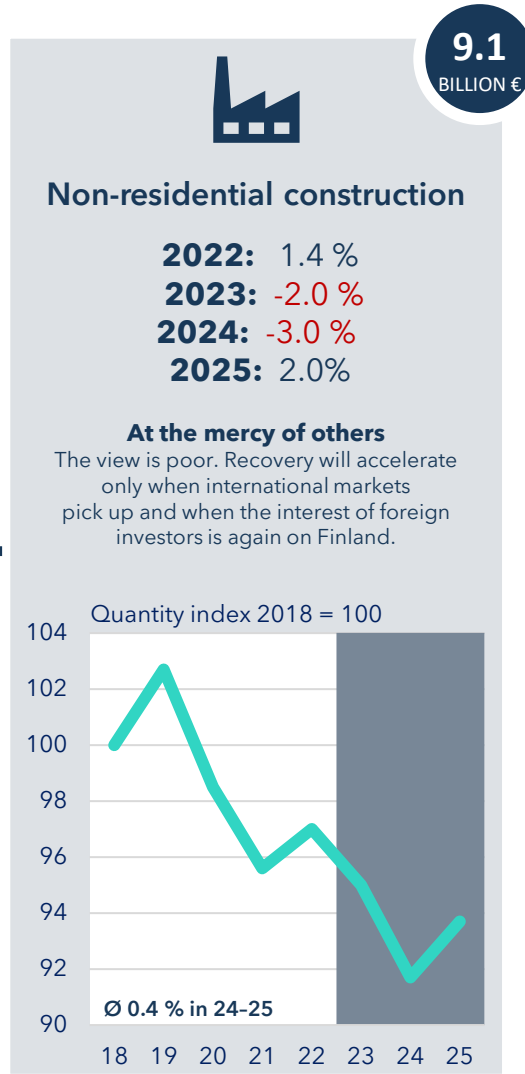
On departure

Infrastructure

Change leads to
growth

Construction outlook 2024-25: growth from collapse - exceptionally poor outlook

2023
in total
38.2
BILLION €



= CONSTRUCTION IN TOTAL*: 2022e: +3.4 % 2023e: -16 % 2024e: -7 % 2025e: +4 %

*Fixed price added value

Questions?

Jouni Vihmo

Chief Economist

jouni.vihmo@rt.fi

+358 50 5201636

X: @jounivihmo

