

Box 2

The construction sector in the euro area

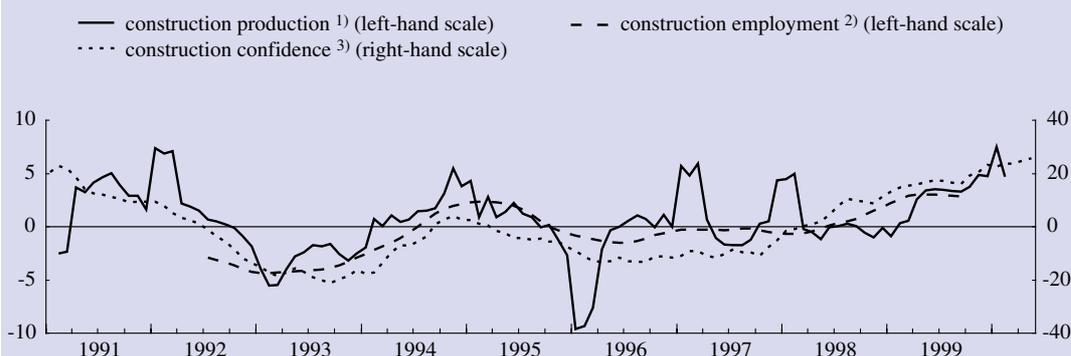
The construction sector constitutes an important element of the euro area economy. Although it accounts for only around 6% of overall economic activity (according to the evidence available from gross value added; see Table 5.1 of the “Euro area statistics” section of the ECB Monthly Bulletin), it is estimated to account for just under 15% of total industrial production in the euro area. In terms of employment, the weight of construction is slightly higher; just over 8% of total employment and around 26½% of industrial employment, according to the results of the 1999 Labour Force Survey.

The construction sector has shown signs of recovery since 1999

Looking at recent developments in production, there have been signs of a gradual recovery in the construction sector of the euro area (see the chart below). Following a period of strong growth in the late 1980s and at the start of the 1990s, which led to substantial excess capacity, production in the construction sector fell sharply in 1993, by over 3%, and again in 1996, by more than 1½%. Indeed, the average annual rate of growth of construction output for the six-year period from 1993 to 1998 was slightly negative, at -0.2%. This sector has thus been subject to a protracted period of weakness, which has only recently given way to a gradual upturn. The rate of growth of construction output observed in 1999, at around 3%, was the highest since at least 1991. In fact, construction activity rose more strongly than manufacturing production in 1999. There has been a continued increase in activity in early 2000. This strengthening in construction activity also appears to have been reflected in the data for employment in the construction sector, which began to rise from spring 1998 onwards and which also rose by 3% in 1999, compared with 1.5% for the economy as a whole. As a result, both production and employment in the construction sector have returned to levels seen in the early 1990s.

Construction production, employment and confidence in the euro area

(annual percentage changes; percentage balances; monthly data)



Sources: Eurostat, European Commission Business and Consumer Surveys and ECB calculations.

1) Annual percentage changes of three-month centred moving averages, working day adjusted data.

2) Annual percentage changes of three-month centred moving averages.

3) Percentage balances, deviations from the average since January 1991, three-month centred moving averages.

Relationship between construction confidence and activity

With regard to the manufacturing sector, some evidence on short-term developments in the construction sector may be derived from the monthly Business Surveys made available by the European Commission. The construction confidence indicator, which is based on questions relating to an assessment of order books and employment expectations in the construction sector for the months ahead, has been broadly

consistent with the improvement in activity, having risen sharply since late 1997. However, while a relationship between production in the construction sector and construction confidence can be observed over the period since 1990, this has been significantly lower than in the case of industrial confidence and manufacturing sector production, the correlation being less than 0.6 for construction, compared with 0.9 for manufacturing. The correlation of confidence with construction employment is somewhat higher, at 0.7.

One reason for the lower correlation between construction confidence and production may be the greater volatility of output in the construction sector, which is more dependent on “irregular” factors such as the weather. Another may relate to the fact that the assessment of order books refers to the stock of orders, rather than the flow of new orders, and may therefore include work already in progress. Furthermore, the correlation may be affected by the generally long time it takes to complete work begun in the construction sector, which leads to production being spread out over a large number of months rather than concentrated in the period closely following the orders. Despite the inclusion of the assessment of orders in the confidence data and the experience of the period since 1997, when confidence rose prior to the upturn in production, as an indicator for production in the construction sector confidence appears to be a broadly coincident, rather than leading, signal of developments in the sector. The latest evidence from the construction confidence indicator may therefore be taken to imply that in the first half of 2000 there has been a continued increase in both activity and employment in the construction sector.

Further improvements in the data are needed

Monthly data on production in the construction sector are regularly reported in Table 5.2 of the “Euro area statistics” section of the ECB Monthly Bulletin. Construction data with at least a quarterly frequency for all EU Member States are covered by Council Regulation (EC) No. 1165/98 concerning short-term statistics (which also covers short-term statistics for the industry, retail trade and services sectors). They are adjusted for variations in the number of working days and, according to the Council Regulation, should be available no more than two months after the reference period. When considering the monthly production data released by Eurostat for the euro area, which are available for 1990 onwards, it should be borne in mind that some countries have not yet released data (Ireland and Portugal), while others provide data on a quarterly basis (Spain, Italy and Finland). There are also considerable delays in releasing results in some countries, which means that the area-wide figures for more recent months contain a significant amount of estimation by Eurostat. Further improvements in the data for this sector are expected when the Council Regulation is fully implemented. It specifies a breakdown for production between building construction and civil engineering. It also requires data for the construction sector on new orders, employment, hours worked, gross wages and salaries, construction costs (for both material and labour costs) and building permits (the number of dwellings and square metres). Most of these variables are not, however, currently available at the euro area level.