EMPLOYMENT DEVELOPMENTS IN THE EURO AREA CONSTRUCTION SECTOR

The construction sector is important for assessing cyclical developments in the euro area economy. On the supply side, construction activities constitute just over 6% of value added and close to 8% of total employment, while on the demand side investment in construction accounts for about 11% of GDP in nominal terms. The sector produces various types of output, namely residential buildings, non-residential buildings (including commercial buildings, hospitals, schools, etc.) and civil engineering (roads, harbours, bridges, etc.). The share of each type of output in total output is fairly evenly distributed, with non-residential buildings accounting for 31% of total output, new residential buildings for around 26% and civil engineering for 20%; while 23% of the total output consists of the renovation and maintenance of the above-mentioned buildings and civil engineering works. This box briefly reviews the role played by construction activities in euro area employment growth in recent years.

One of the key features of the construction industry is the long production periods. The production of new residential buildings can take up to two years on average, and many civil engineering works can take even longer. These long production periods explain the significant financial requirements of this industry, which accounts for a large share of the stock of total loans to non-financial corporations (NFCs).

The weight of construction activities in national value added also differs significantly across countries (see Chart A). Ireland and Spain are the two countries where construction had the greatest weight in 2006 at respectively 10% and 12% of nominal value added; at the other extreme, the participation of the construction sector in the German economy has been declining, and by 2006 construction activity only amounted to 4% of value added in Germany. The dynamism of construction activities in Ireland and Spain is clearly shown in the fast growth of loans related to these activities. By the end of 2006 loans for construction and real estate amounted to 51% of the stock of total loans to NFCs in Spain and 74% in Ireland.

As regards the share of employment in construction in total euro area employment, this stood at around 7.4% until 2004. Since then, it has risen to close to 8%, but with sizeable differences across countries. Construction accounts for the largest share of total employment in Spain and Ireland (around 12% and 13% respectively), while in Germany and Belgium it accounts for less than 6%.

The contribution of the individual euro area countries to aggregate euro area construction sector employment figures differs considerably. Currently, Spain and Germany together account for almost half of employment in construction in the euro area (see Chart B). This reflects a size effect in the case of Germany, the largest economy in the euro area, and also, in the case of Spain, the weight of this activity in overall economic activity.

Since 2004 there has been strong growth in construction activity in the euro area. Chart C shows employment in construction increasing sharply from early 2004 and peaking in early 2007. This is consistent with the strong growth in value added in this sector over the past few years, particularly in countries such as Spain. Over the last four years, employment in construction has made a large contribution to employment growth in the euro area. Indeed, about 17% of net employment creation in the euro area since 2004 has taken place in the construction sector.

Recent data suggest that activity in the construction sector has slowed and that it is likely to make a smaller contribution to overall economic growth in coming quarters. This is most
apparent in the housing markets in countries such as Ireland and Spain, which have cooled recently after years of very rapid growth. As shown in Chart D, the annual growth rate of construction production has been on a downward trend since early 2007. While quarterly data still show positive growth, monthly data for December 2007 suggest this to be the first time since May 2005 that a decline in construction has been recorded. Other indicators, such as building permits and loans for house purchase, also point to a moderation in housing market developments, which is consistent with the sharp decline in employment expectations in this sector in the last few months.

2 See also Box 4 of the February 2008 issue of the Monthly Bulletin entitled “Recent developments in euro area residential property prices”.