

Box 2

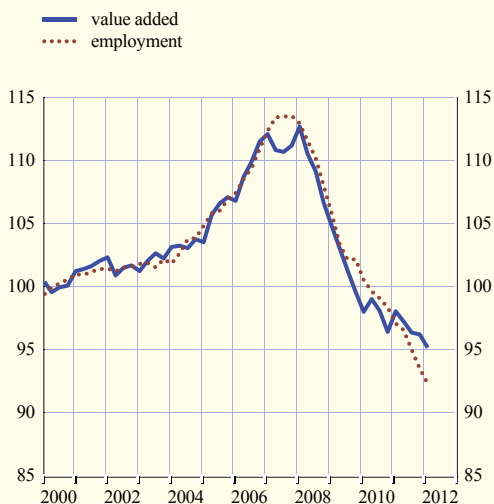
RECENT DEVELOPMENTS IN THE EURO AREA CONSTRUCTION INDUSTRY

In the euro area, construction activity expanded rapidly in the run-up to the financial and economic crisis (see Chart A). While economic growth resumed at the end of 2009, the sharp contraction continued in the construction industry, and at the beginning of 2012 no clear signs of a stabilisation had yet emerged. According to national accounts data, by early 2012 activity and employment in the euro area construction industry were down from their peaks by around 15% and 20% respectively. This box reviews recent developments in the construction industry in the euro area and the five largest euro area countries, as well as the outlook for the coming quarters.

The developments at the euro area level mask divergent developments across the large countries. The largest positive contributions to construction activity during the period 2004-07 were made by France, Italy, the Netherlands and, in particular, Spain, which more than offset a contraction in Germany. Since 2008 developments in construction activity have reversed (see Chart B).

Chart A Euro area construction industry value added and employment

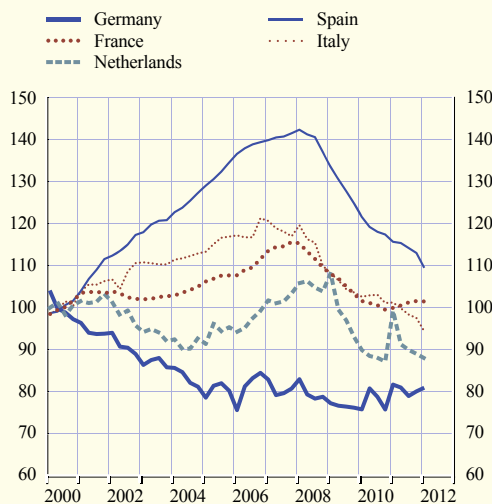
(index: 2000 = 100; quarterly data; working day and seasonally adjusted; chain-linked values)



Sources: Eurostat and ECB calculations.

Chart B Construction industry value added for selected euro area countries

(index: 2000 = 100; quarterly data; working day and seasonally adjusted; chain-linked values)



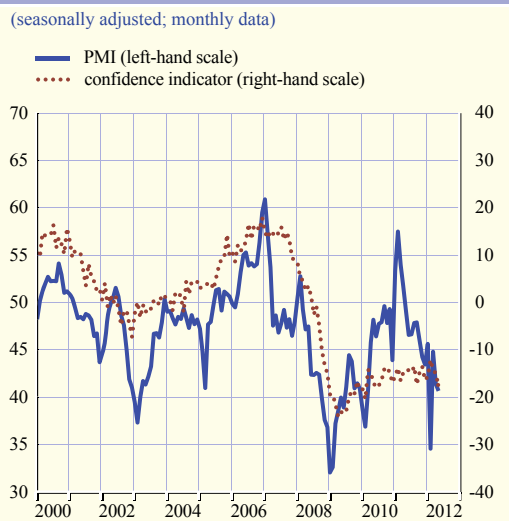
Sources: Eurostat and ECB calculations.  
Note: Data for the Netherlands are only seasonally adjusted.

Activity has fallen in Spain, Italy, the Netherlands and, to a lesser extent, in France, while it has been broadly flat in Germany, with some positive signals more recently. While signs of a stabilisation were observed in some countries in early 2011, the intensified euro area sovereign debt crisis triggered a renewed weakness in the second half of the year.

The weak developments in overall construction activity were also reflected in survey indicators. For example, in May 2012 the Purchasing Managers' Index (PMI) for the construction sector in the euro area was below the threshold value of 50 – which is normally associated with a contraction in activity – for the 13th consecutive month, highlighting the weak momentum of construction activity (see Chart C). However, the low values of the construction PMI need to be interpreted with caution, as the construction industry expanded moderately between 2001 and 2005, but the construction PMI was below 50 for most of that period. In addition, the European Commission's construction confidence indicator for the euro area, despite recovering somewhat since 2009, still stood significantly below its long-term average in May 2012. Forward-looking indicators of construction activity have also remained weak. The number of building permits granted in the euro area and, according to the European Commission, construction firms' assessment of order books, have been increasing slowly from subdued levels since the beginning of 2009 (see Chart D).

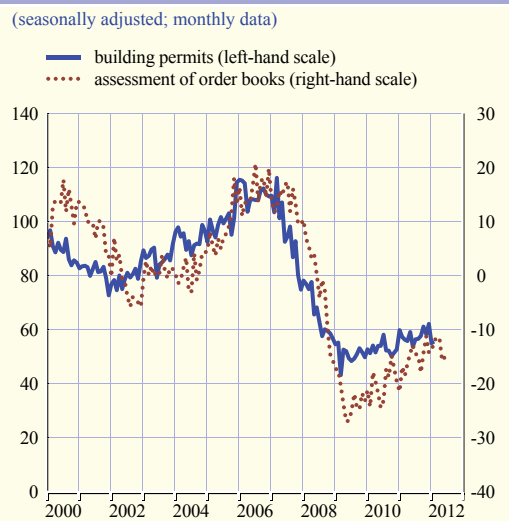
The mood in the euro area construction industry as a whole reflects a subdued sentiment in the five largest euro area countries, except Germany, where it is more positive. In Germany, short-term indicators of construction activity are still favourable, supported by buoyant demand for investment in construction, which is partly due to the uncertainty surrounding the return prospects of financial assets. In Spain, domestic demand remains weak. However, in recent months there has been some stabilisation of short-term indicators of construction activity, albeit from depressed levels. In the Netherlands, there has been a rapid deterioration in survey

**Chart C PMI and confidence indicator for the euro area construction sector**



Sources: European Commission and Markit.  
 Note: The confidence indicator has been normalised around the mean of the series since 1999.

**Chart D Building permits granted and construction firms' assessment of order books in the euro area**



Sources: European Commission and Eurostat.  
 Notes: For building permits, the base year for the index is 2005. The assessment of order books has been normalised around the mean of the series since 1999.

indicators for the construction sector, which have fallen to levels previously only seen at the peak of the crisis, alongside a correction in house prices, while in France and Italy, sentiment seems to have stabilised somewhat below the mean of the series.

Looking ahead, activity in the construction industry is likely to remain subdued, as suggested by short-term indicators. In France and Italy, fiscal consolidation measures, such as increases in property taxes and the phasing-out of tax measures favouring investments in residential properties, may also weigh on construction activity. In addition, activity in those countries more affected by the sovereign debt crisis may be dampened by higher financing costs and adjustments in the financial sector, while in Germany activity will be supported by low financing costs.