



EUROCONSTRUCT CONFERENCE
29 November 2013, Prague

THE CONSTRUCTION SECTOR IN THE EECFA COUNTRIES

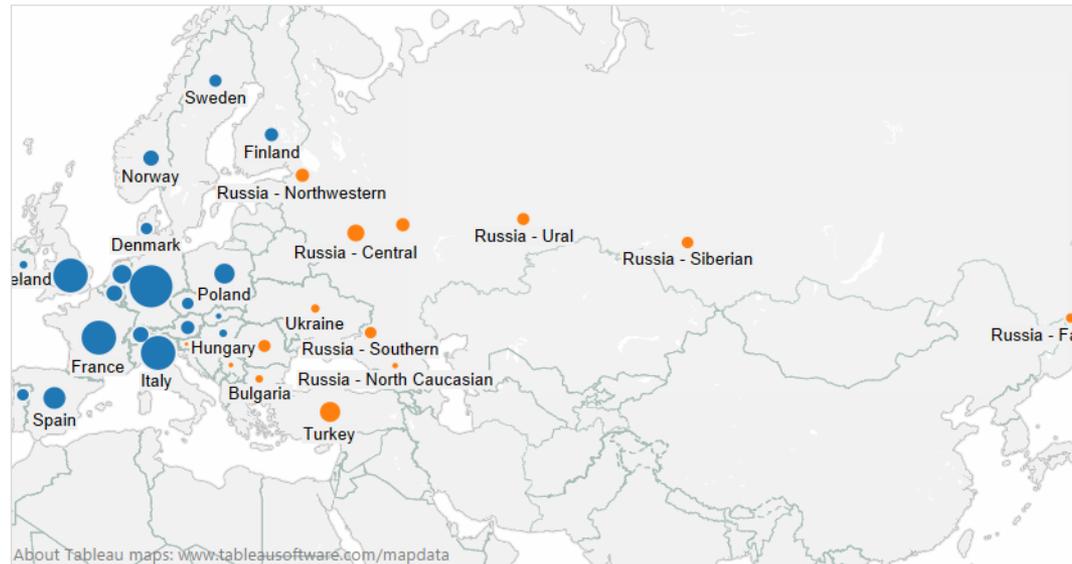
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EECFA Central Body

- I. The size of the EECFA construction market
- II. Trends in the EECFA-region
- III. Business cycle characteristics

The size of the construction sector in two groups of countries

Total construction output (in 2012 expressed in EUR)

Russia is broken down to Federal Districts



Sector breakdown (2012)

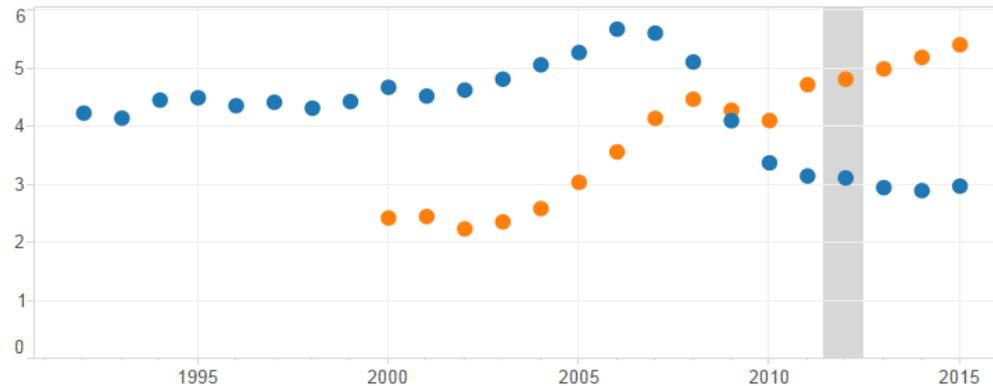


Housing completion in the region

Housing completion in EUROCONSTRUCT and EECFA area in 2012
 Russia is broken down to Federal Districts



Completion per 1000 person



Size of the construction sector in the two country-groups

- **Total output:** the size of the EECFA-countries' construction market has risen to one quarter of the EUROCONSTRUCT countries'.
- **Residential construction:** This is a characteristic subsector in Russia and Turkey. The number of newly completed homes here stands at the same level as in the rest of Europe. New housing completion per 1000 inhabitants is expected to remain stable at around 5 in the Eastern-block while this indicator is around 3 elsewhere in Europe.
- **Renovation:** Renovation is still less significant in the converging Eastern countries. In residential construction the renovation ratio is 10% (while it is 60% in Europe), and in non-residential construction it is 20% (compared to around 50% in Europe)

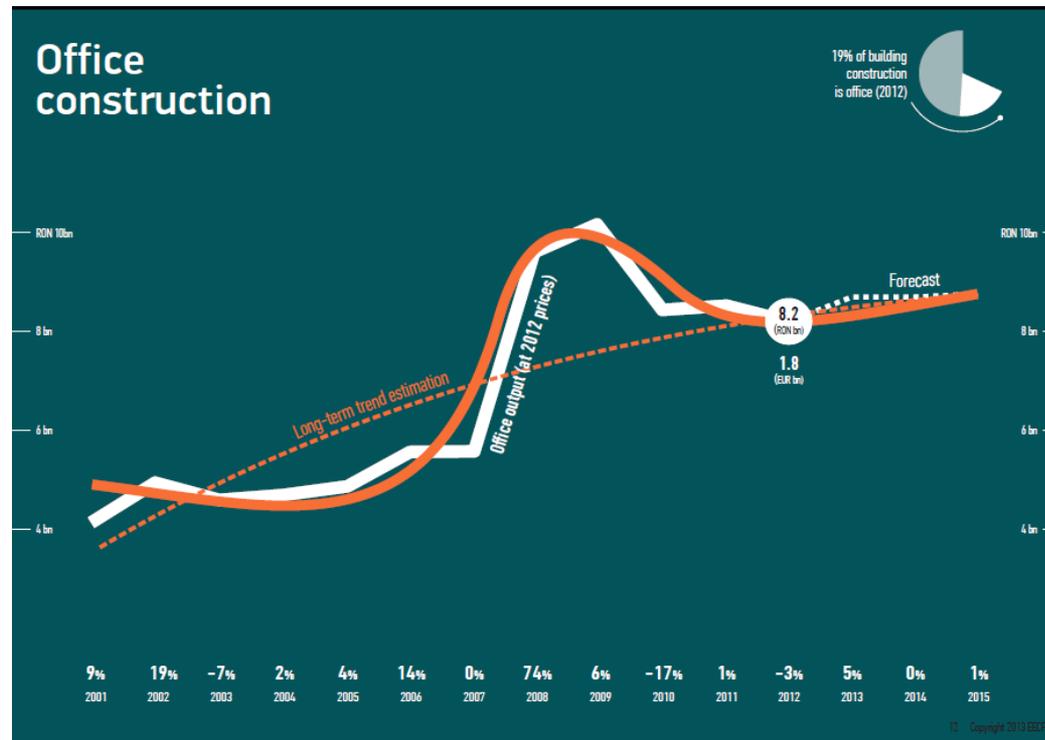
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Decomposing the time series according to the horizon

Recent past, present, 'nowcast'.

Business cycle movements

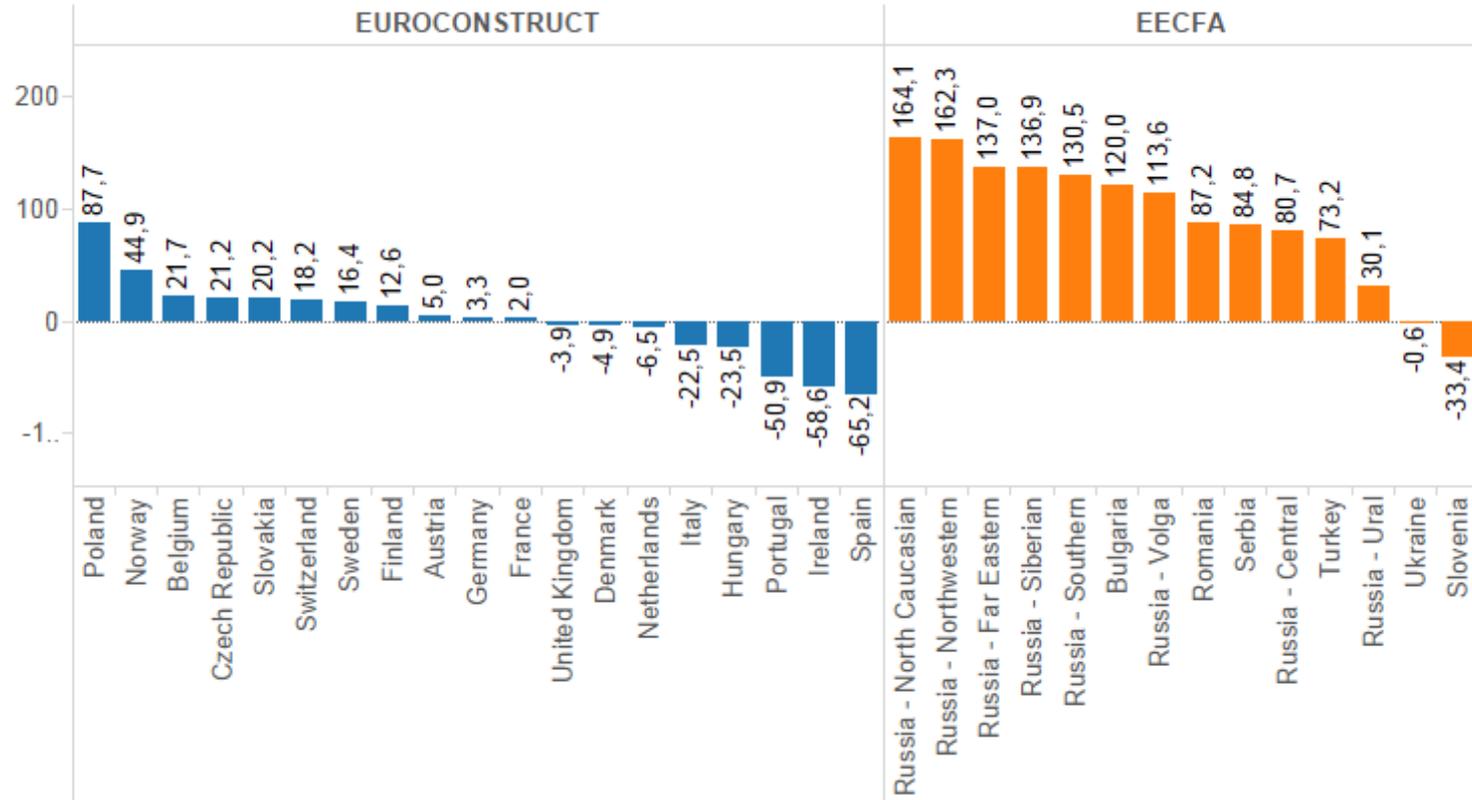
Long-run trend



Different indicators are taken into consideration for each.

The sector's real growth in the past decade

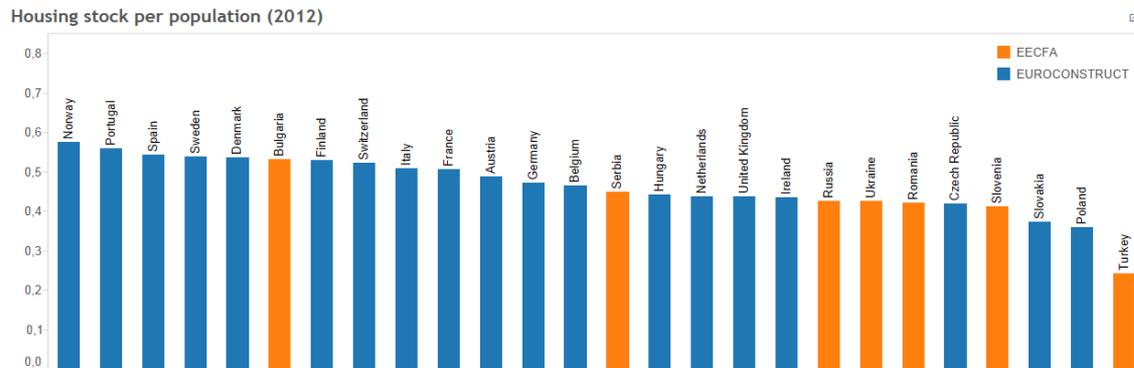
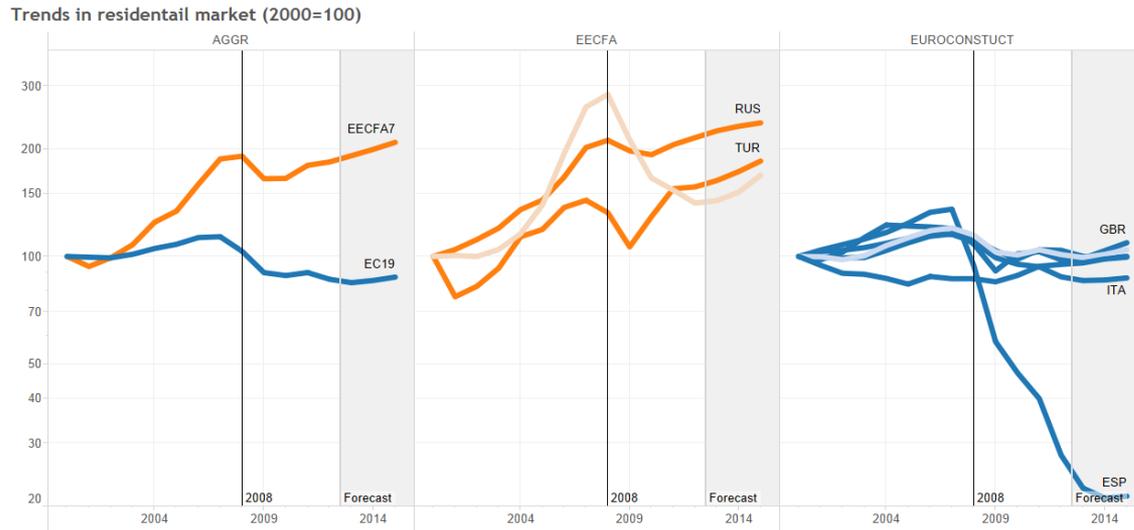
Real growth in % from 2002 to 2012



The sector's real growth in the past decade

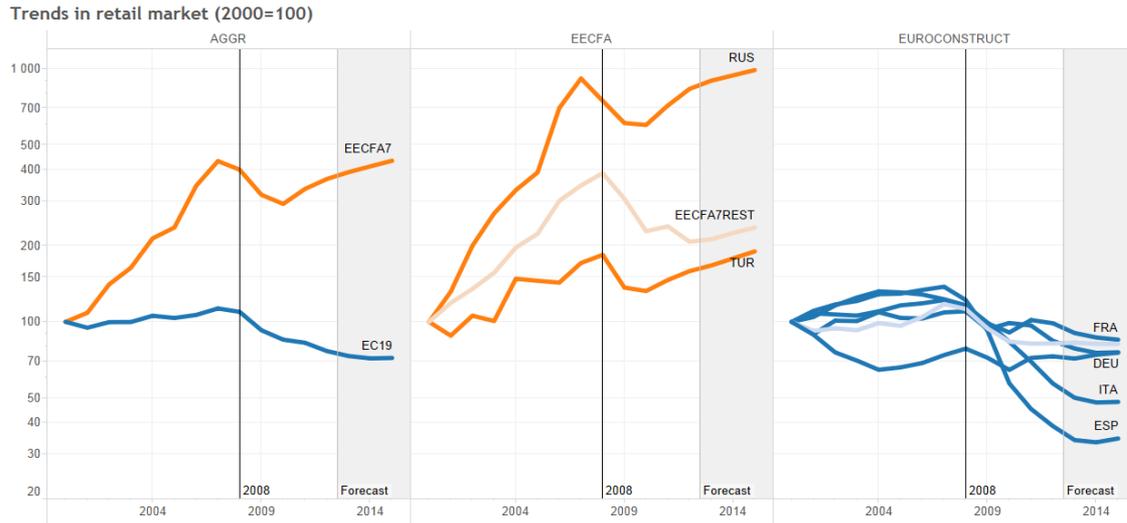
- In 2012 Russia (as a whole) is the 5th biggest market in Europe. The Central Federal District alone (whose administrative capital is Moscow) could be ranked as 9th. Turkey comes 7th in the same list.
- Over the past decade, Eastern countries have gained strength and grown rapidly by an annual average of 6%, while the EUROCONSTRUCT area, by 2012, has only arrived back to the level of 10 years earlier.
- Only Poland was able to show a high growth rate among EUROCONSTRUCT countries, but its rate is still somewhat lower than most of the Russian regions'.

Comparing coverage: trends in the residential market

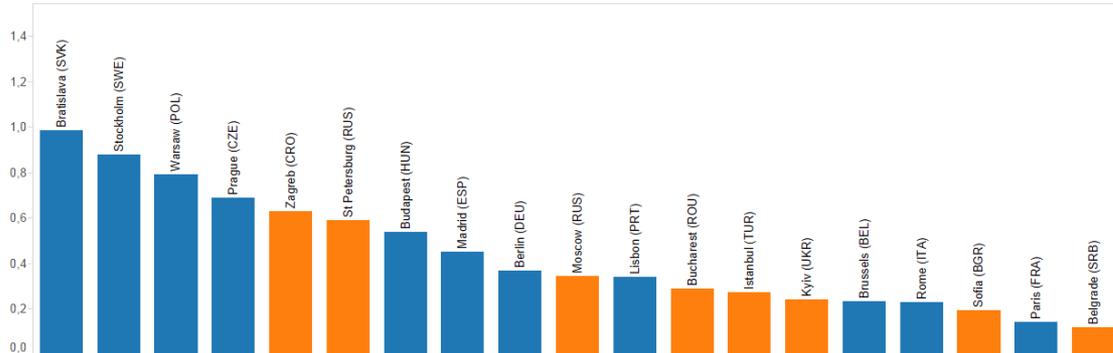


The region's housing stock is relatively small. Furthermore, the quality of housing also requires development.

Comparing coverage: trends in the retail market



Modern retail space per population (sqm per head, 2012)



The region's retail space lags behind the Western level, which points towards further convergence.

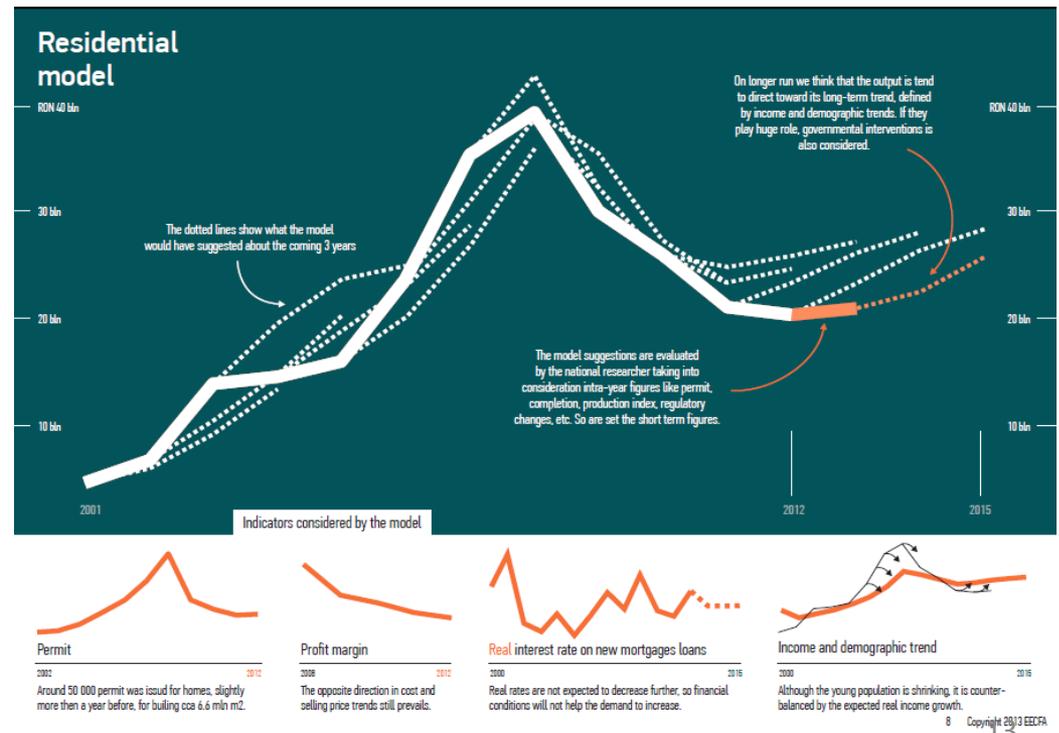
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Quantified relationships result in a verifiable system

Forecast error has two sources: external and internal.

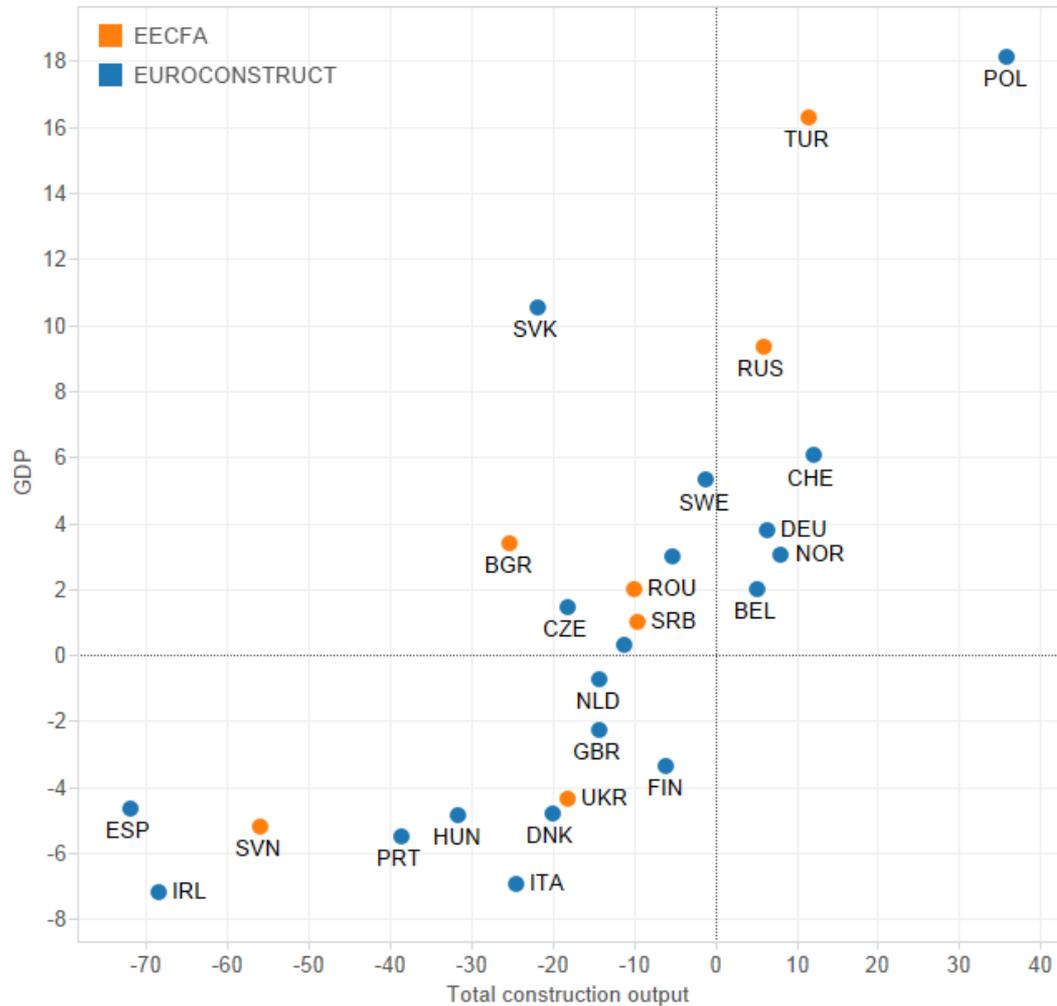
- External comes from imprecise macro forecasts.
- Internal comes from misjudging the links between the macroeconomy and the construction industry.

As correspondences are clear, we can test their performance, and refurbish them.



Post-crisis recovery

Cumulative change of GDP and Construction output from 2008 to 2012



Recovery after the crisis

- The general co-movement of the total economy and the construction sector is clearly observable in the past 5 years. The volatility of the construction sector is 2-3 times higher.
- Turkey, Russia not just survived the crisis, but have gained strength in the last 5 years.
- The fallback of the construction sector is the most significant in those countries that were „overheated”, like Slovenia in the EECFA region.

Noisy data needs careful treatment

- Giant projects could distort the long run trend
The Winter Olympics caused the construction sector of the Krasnodar regions to grow by 240% between 2006 and 2013.
- Regulation could result in determining changes.
In Turkey, the 'Law on Transformation of the Areas under Disaster Risk' could secure the renovation and renewal of 200.000 houses per year.
- EU development funds significantly affect the construction sector in Bulgaria, Romania.

The members of EECFA must monitor the local markets closely, collecting, checking and evaluating the incoming news.

Thank you for your attention!