

European construction outlook

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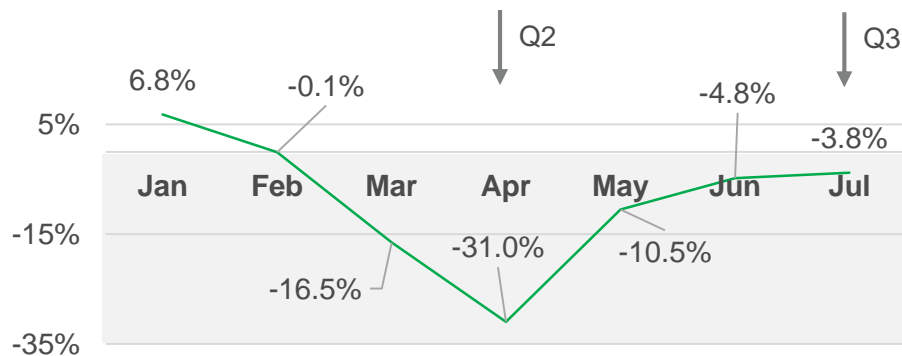
The Covid-19 pandemic ends a 5-year growth cycle

The initial good traction in January/ February was derailed drastically due to the spread of the virus.

- The Eurozone **construction production** suffered a severe drop in March/ April as a result of the lockdown and social distancing measures
- As a consequence, the Eurozone **construction PMI index** ended up at 15.1 in April – a record low level

The virus stopped a 5-year period of continued growth.

Eurozone construction production 2020, compared to 2019:



Source: Eurostat

Over Q1/Q2 2020, there was some strong **regional disparities** in the way that the Covid-19 pandemic was handled / impacted the economy:

- In the **Nordic countries** (FI, SE, NO, DK), most of the construction activities kept going during the peak (March/ April), with, as a result, a slight decrease or even no change in the construction activity.
- In **Central Europe** (West: DE, BE, NL, AU, CH; East: PL, CZ), some construction jobsites were closed, especially in the West part, having consequently a slighter impact.
- In **Southern Europe** (FR, IT, ES), and in the **United Kingdom**, the construction activity largely stopped, translating the lockdown into a historical drop.

Construction activity levels (End-March – Mid-April)	
Nordics	FI: 80 to 90% of the activity continued normally (Confederation of Finnish Construction Industries)
Central Europe	DE: the industry was operating at about 80% of normal capacity in April (German construction industry association)
Southern Europe	FR: the industry was at 25% of normal capacity in April and still 60% in May (Banque de France)

What's ahead for Q3/Q4 2020, and for 2021?

In the short-to-medium term, the **restricted access towards credit and investment** will impact all countries with the same magnitude.

Impact of COVID-19 on investments	2020-Q3	2020-Q4	2021-Q1	2021-Q2	2021-Q3	2021-Q4
Residential	High impact	High impact	Medium impact	Medium impact	Low impact	Low impact
Non-Residential	High impact	High impact	High impact	Medium impact	Medium impact	Medium impact
Infrastructure	Low impact	Low impact	Medium impact	Medium impact	Medium impact	Low impact

■ Low impact
 ■ Medium impact
 ■ High impact

Construction segment outlook:


- Investments into residential will decrease in the short-term, as demand from households drops (**unemployment** and increase in **short-time work**).
- Same goes with investments into non residential with **profits decline** leading companies to save cash flow; while **changing habits among consumers** could result in permanent lower demand for commercial buildings (only potentially partially counterbalanced by the growth of online shopping) and office buildings.
- Public construction investment is a stabilizing factor in economic crisis. However, government efforts to invest heavily will be constrained, considering **current financial position and debt**.

The impact on the Eurozone 2020 construction outlook is quite strong with a **-7.5-point difference** between pre-COVID19 and post-COVID19 estimations.

Eurozone	Before Covid-19	Now
2020 growth	+1.6%	-5.6%
2021 growth	+1.7%	+1.7%

Source: IHS Markit

Forces at play:

-  **> Projects postponed or delayed**, and **investment reduction**
- > Productivity disruption**
- > Supply chain disruptions**



- > Massive support** from the central banks and governments
- > Drop in raw materials and energy prices**



A long way back for construction

Below are today's projections, which do not take into account the possibility of a second wave

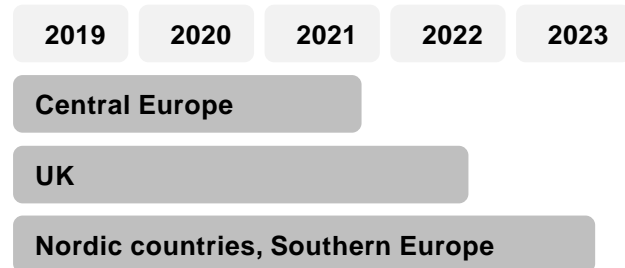
Key take-aways

2019 was a year of growth for all the European markets. Those markets, however, were at different stages of the growth cycle.

Over the second quarter, the immediate impact of the pandemic differed from zone to zone, but was compensated in the more affected markets by, **over the third quarter**, a solid push from private firms keen to complete ongoing projects as well as a strong policy reaction from governments.

In the short- to medium-term, the risk however remains across Europe, with no European market likely to evade the impacts of Covid-19 for the rest of this year and 2021.

In order to reach the **pre-crisis level**, we will have to wait until 2021 for Central Europe, and until 2023 for the Nordic countries, Southern Europe, and the United Kingdom (potentially 2022 for the later 'benefiting' from a slow growth in the past years).



Source: IHS Markit

Central Eur.

2019	2020	2021
+3.2%	-3.0%	+1.6%

In 2019, DE, AU, and NL, stable underlying demand, but a cyclical downturn expected after a long momentum. In CZ and PL a solid growth expected.

Nordics

2019	2020	2021
+2.5%	-3.9%	+1.2%

In 2019, the prospects in the Nordic countries were negatives, with levels of construction activity in FI and SE expected to fall in the next years

In 2019, the outlook in FR was slowing down after a resilient momentum. In ES and IT, a real traction was at play.

Southern Eur.

2019	2020	2021
+1.2%	-7.6%	+1.8%

In 2019, new orders for construction in the UK started declining in the fourth quarter of 2019 suffering from the climate of political and eco uncertainty.

UK

2019	2020	2021
+2.3%	-9.0%	+2.5%

Source: IHS Markit

Thank you!

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