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Article

"The construction industry continues its upward trend": Seven questions to Claus Michelsen

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Dr. Claus Michelsen, Research Associate,
Department of Forecasting and Economic
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SEVEN QUESTIONS TO CLAUS MICHELSEN

»The construction industry continues its upward trend«

1. Dr. Michelsen, how important has the construction industry been for the German economy in recent years? After the construction industry hit rock bottom in the first decade of this century, it has recovered considerably since 2010. It is now an important pillar of the German economy and contributes significantly to growth in the country. Since 2010, we have seen a sharp increase in the volume of construction. In particular, the number of new residential buildings being constructed has risen considerably.
2. What are the growth figures for the different sectors? Residential construction has grown by around 60 percent since 2010. This is a very considerable increase. Non-residential construction has developed less dynamically and construction on existing buildings has also grown substantially less than new residential construction. As a result, development is split between sectors and this is driven mainly by demand for more residential buildings.
3. Why are there such major differences between the individual sectors? Residential construction is growing particularly well because the general conditions are excellent. Interest rates and the labor market situation are very favorable and demand for housing is high, especially in urban conurbations. Development of commercial construction has been somewhat more tentative. This is primarily due to Germany's current economic upswing being largely driven by consumption and supported less by industrial production. There has been stronger growth in the construction of service, retail, and warehouse buildings. However, construction of industrial and production plants has stagnated with investment being limited to maintenance only. Public sector investment has been relatively restrained for several years now. There was little impetus once stimulus packages expired around 2009.
4. Why is there so little momentum in the market for construction on existing buildings? This phenomenon is largely related to residential construction. In this sector, there is heavy investment in energy-efficient refurbishment and this is desirable due to ambitious political goals. By 2020, savings of approximately 20 percent are needed in this area and this will require considerable investment. However, the volume of energy-efficient refurbishment has declined markedly, which partly explains the loss of momentum observed in the existing buildings segment. One reason for this is the low oil price which has made investment in energy efficiency relatively unattractive compared to previous years. Nevertheless, it is a little surprising that energy efficiency investment is so weak because the overall conditions are still good.
5. What about the availability of land for development? Here we have a big problem. New residential construction needs space and this space is only being allocated reluctantly. This is mainly due to planning procedures in the municipalities and at the planning authorities. We have observed that the sale of land for construction has been very sluggish in recent years. In particular, more land in urban conurbations needs to be re-allocated as construction land in order to meet growing demand.
6. What impact will the immigration of asylum seekers to Germany have on the situation? Everyone is assuming that many of the refugees currently coming to Germany will remain here permanently. If we want to provide them all with adequate accommodation, we need to construct more buildings, especially in the lower-quality segment of the housing market in order to prevent competition and shortages.
7. How is construction volume expected to develop this year and in the future? This year, we expect total construction volume to grow by around 2.7 percent and by around 3.9 percent next year. This is strong growth and continues the positive trend of the recent past.

Interview by Erich Wittenberg



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