The current outlook is not positive in terms of the reconstruction of Finland.

The Corona Crisis Doubles the Pace at Which Construction is Slowing Down

Confederation of Finnish Construction Industries RT
Chief Economist Jouni Vihmo 28 May 2020
Even according the most optimistic forecast, Finland is headed towards another period of economic uncertainty. Post-financial-crisis decision-making ability and economic recovery are not enough during the corona crisis.
Consumer confidence indicator

Consumer confidence bleakest in history
Homebuying plans still unaffected

Source: Statistics Finland
Status of construction

Outlook for the upcoming months deteriorated quickly

The corona crisis was not yet visible in April production

Source: EK

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Consequences of the coronavirus crisis will take time to become apparent

A quarter of clients have postponed projects

To what degree is the corona crisis affecting your business during the current and upcoming quarters?

Source: RT corona survey May (n=390)

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Impacts of the corona crisis on construction

The corona crisis hits peak housebuilding season and SMEs

Housebuilding projects started in 2019 (pcs)

Construction sector company distribution (share in percentages)

Source: Statistics Finland

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Finland is headed towards another period of economic uncertainty. The impacts on the construction sector will not be apparent until after the summer.
Number of privately financed residential development projects to drop significantly – statistics indicate a strong start to the year

High rise development projects started during 2015 to 2020 (pcs)

Source: RT residential development survey May

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Rented housing (negotiated contract, incl. intermediate model)

Source: Statistics Finland, building and residential development
Number of apartments on the market decreased significantly

Advanced reservation rate increased by 6 per cent

Source: RT residential development survey (May 2020)

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Home construction distribution

Privately funded home construction plays a critical role
Subsidized home construction represents a quarter of all production

Source: Statistics Finland, building and residential development, ARA, RT
The housing market recovered quickly after the financial crisis compared to the recession of the 90s. Revival was due to fiscal stimulus measures.
Developers are preparing for economic downturn and are adapting their operations

- Reduced demand has become the primary reason behind slowing residential development
  - Chronic lack of plots and plot costs continue to affect the industry
- Companies are adapting through strong measures
  - Housing production will decrease, particularly in the second quarter – more projects planned for the second half of the year
  - Stock of on sale and ready for sale units has been reduced
  - Advance reservations for new housing projects have increased significantly from 42% to 48%
- According to the survey, the estimate for the new projects for 2020 is 25 per cent less than in beginning of the year.
  - Consumer development projects decreased by 31 per cent
  - Investor development projects decreased by 19 per cent
  - The proportion of growth centres increased in terms of overall production
- Financing will become an issue. For now, bigger and well-established companies receive RS funding – for others, receiving funding might be less steady.
- Based on the drop in consumer confidence and the results of the survey, it looks like several smaller construction businesses might quickly get into problems in terms of liquidity.
- Consumer housebuying sentiment is still fairly stable. Urbanisation will not stop. The demand for homes will continue after the crisis.

→ Residential development will decline more than the RT survey indicates
→ Residential development will decline starting from the spring to a level below long-term housing needs
→ The corona crisis will reduce the supply of homes, but not the demand
Developers are adapting their operations.

Residential development will decline to a level below the housing demand.
Construction follows the general economy

Source: Statistics Finland, RT
The risk of long-term downturn exists

Source: Statistics Finland, RT
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Building levels and forecast

**The size of the sector following the financial crisis is not sufficient for reconstructing Finland in the coming years**

The national reconstruction is not complete

**New projects (million cubic metres)**

- **The era of regional development from 1970 to 1974**
  - 45 million m³ (1972 - 1989)

- **The end of regulatory era from 1980 to 1986**
  - The liberalisation of the financial markets from 1986 to 1988

- **Economic recovery from 1995 to 2000**
  - 30 million m³ (1991 - 1996)

- **Era of stable development from 2001 to 2006**
  - 42 million m³ (2001 - 2006)

- **From economic prosperity to a new recession from 2007 to 2009**

- **Lost decade**
  - 37 million m³ (2015 - 2019)

- **Construction as the driver of economic growth from 2015 to 2018**

- **Deep recession from 1989 to 94**

- **Corona crisis From 2020**
  - 31 million m³ (2021)

**Source:** Statistics Finland, RT

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The value increase of construction varies with new construction

The swift stimulus measures taken during the financial crisis helped reduce the negative impact on the sector compared to the 90s downturn.
The levels of employment within the construction sector have risen despite crises

Any decrease in employment rates must be battled during the corona crisis

Source: Statistics Finland, RT
Investor demand is greater than consumer demand. The availability of funding is uncertain. ARA production is regenerative and continues to increase from the beginning of the year with the decision. The construction of terraced houses will decrease along with other forms of housing. The corona crisis is dampening the year that got off to a good start for small homes. Other construction projects are also slowing down.
Confederation of Finnish Construction Industries RT forecast 2020-2021*

New development projects

- **Housing**
  - 2018: 8.8%
  - 2019: -2.3%
  - 2020: -20.0%
  - 2021: -11.0%

  Residential development will slow down further. The low interest level helps, but receiving RS funding might become problematic. The basis for demand will not disappear.

- **Business premises**
  - 2018: 6.1%
  - 2019: 2.6%
  - 2020: -5.0%
  - 2021: -7.0%

  The generally stronger increase of business premises construction will slow down in all main categories. The volume will drop most in 2021.

Renovation

- 2018: 1.0%
- 2019: 1.0%
- 2020: 0.5%
- 2021: 1.5%

  Renovation will slow down during the ongoing year as housing cooperatives are not able to make decisions about renovations. The financial situation of municipalities will affect public renovation projects.

Land and water construction

- 2018: 3.9%
- 2019: -2.5%
- 2020: 3.0%
- 2021: -3.0%

  Without new public projects, land and water construction will decrease again next year.

= Construction in total*: 2019e: -1.2%  2020e: -5.0%  2021e: -4.0%

*quantitative change

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Decision-making and stimulus

Unexpected crises

Permanent structural changes take place in the economy, making it more difficult to get an overall view of the environment

The Euro area financial market stress (Euro area Systemic Stress Composite Indicator -index)

Source: ECB, The Bank of Finland

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Construction will remain slow during the next few years. The current outlook is not positive in terms of the reconstruction of Finland.
Current status of the construction industry

Summary

• The Finnish economy is under the threat of persistent economic headwinds.
• The corona crisis was not yet reflected on the construction sites in the beginning of the year.
• The outlook for the construction sector has taken a nosedive. Clients are postponing projects.
• Construction will slow down during the next few years – the risk for long-term downturn exists.
• The current outlook of construction is not enough to reconstruct Finland and maintain a dynamic economy.
• During this year, construction is particularly affected by residential development, and next year it will increasingly affected by commercial development.
• Employment in the construction industry might fall during the next few years by up to 20,000.
• Forecasting trends in different areas of construction is difficult – the outlook for the entire construction sector is negative.
• Starting from this spring, development will decline below the annual housing need due to the reduction in private funding in high rise development. Financing will become an issue.
• The corona crisis will reduce the supply of homes, but not the demand.
• Slowing residential development will have socioeconomic impact on the entire society.
• Swift stimulus measures following the financial crisis prevented a recession and mass unemployment in the construction industry, which helped support the economic growth of Finland.
Additional information:

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The corona crisis will permanently change the economy, and forming a clear overview is difficult.

The ability to make decisions is key to recovery.

CEO Aleksi Randell 28 May 2020
From the bottom of the pit to reconstruction

View from the bottom of the pit

Stage 1. Acute crisis prevention

Filling the pit

Stage 2. Traditional stimulus

Reconstruction

Stage 3. Increasing long-term production potential

Status overview, working capital, workforce and materials, government actions

Government spending limits, supplementary budget, government budget session, housing market subsidies, infrastructure projects that are quick to implement

Housing market subsidies, infrastructure projects that support long-term growth, sustainable development projects
Five reasons behind construction being an effective method for stimulating the economy

Immediate effect

1. Employment
   - One million euros invested into the construction sector employs 13-16 people. Compared to other industries, the level of domestic origin in construction is high. Example: 275 million euros spent to build the Espoo City rail line would employ 4,125 people.

2. Tax revenue
   - Of the euros invested in the construction, the portion of taxes is 40-45 per cent. Example: Tax euros invested in the Espoo City rail line will be returned to the society tenfold in housing construction tax income alone.

3. Competitive ness
   - Housing and infrastructure development improve the mobility of labour and freight. Long-term growth conditions are most effectively improved by developing domestic and international accessibility.

Long-term impact (MAL)

4. Stepping stone
   - A well-chosen construction project works as an effective stepping stone for other construction projects. Example: The Espoo City rail line advances other construction projects worth billions of euros, including the construction of over 25,000 homes.

5. Sustainable growth
   - Construction sustains and increases the production potential of the economy, which must be in order when the economy picks up after the corona crisis. Construction can help strive for reduced emissions.

The land use, housing and transport (MAL) planning can help in realising long-term growth potential, but it must be unified and expanded more ambitiously.
Message from the Confederation of Finnish Construction Industries RT regarding reconstruction of Finland

• Debt must be made available for national reconstruction – the incurring of national debt is not an immediate problem.
• Alongside the May supplementary budget, economic stimulus measures must be implemented, and we must prepare for the exit phase.
• The supplementary budget must include decisions on e.g.
  • state subsidies in the MAL agreement (no impact on the budget)
  • Fixed-term investment subsidies for municipal infrastructure development, property investment and renovation
  • Refurbishment projects for infrastructure development
  • Application of deficiency guarantee by the government for privately funded rented housing development
    • The government needs to expand the authorisation to grant ARA, improve the current ARA production conditions and speed up the application process
    • Fixed-term renovation subsidies for housing cooperatives
• By no later than the autumn, the government must expedite transportation initiatives and make decisions on support elements that increase confidence in the future and help advance housing and public development.
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There are 2.5 million employed in Finland, a fifth of whom benefit from constructing or the renovation of existing property.

A fifth of Finns are employed by new construction projects or the renovation of existing property.

€1 → €2

Growth

Inactivity is the most costly option

83 per cent of the Finnish national wealth is in the constructed environment

Renovation debt

3.4 – 5.7 bn €
The neglect of the constructed environment has an annual cost of 3.4-5.7 billion euros

€1 → €2

Every euro invested in the constructed environment is doubled in return

The second wave of urbanization requires investment – the construction of Finland is not complete

Construction GDP

Economic growth is slowing down – the need for infrastructure that combines new housing and growth areas is not going anywhere

150,000

new homes during the current government term

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Construction industry client base consists of the whole society

- **New house construction**: 15.4 bn €
- **Renovations**: 14.0 bn €
- **Land and water construction**: 6.8 bn €

**Construction 36 billion euros in 2019**

- **13 bn €**: Households
- **7 bn €**: Businesses
- **7 bn €**: Municipality
- **3 bn €**: Home Ltd
- **4 bn €**: Property Ltd
- **2 bn €**: State

**Government construction** is almost entirely infrastructure development.

**Household and property companies** cover 1/3 of all renovations and over half of all property maintenance.

**Municipalities develop** over half of Finland’s infra. Municipalities renovate and maintain properties.

** Businesses** use a wide variety of construction services.

**Households** cover half of all new construction and renovations.

Construction industry client base consists of the whole society.
Construction distribution 2019

**Million euros (2018)**

- **Detached houses**: New construction - 2675, Renovation - 2824, Total - 5509
- **Terraced houses and apartment blocks**: New construction - 4650, Renovation - 4452, Total - 9102
- **Commercial buildings**: New construction - 2389, Renovation - 1127, Total - 3516
- **Public buildings**: New construction - 1857, Renovation - 2373, Total - 4230
- **Industry and storage buildings**: New construction - 2188, Renovation - 1299, Total - 3487
- **Other buildings**: New construction - 1494, Renovation - 759, Total - 2253

**CONSTRUCTION TOTAL**

- New construction building: 15.4 BN. €
- Renovation: 14.0 BN. €
- Land and water construction: 6.8 BN. €

**Total Construction**: 36.2 BN. €