

Two more negative years for construction in Western Europe as end of housing crisis unlikely to take shape until first half of 2011

Ireland and Spain expected to record the strongest declines in construction output across the Euroconstruct area in 2009

Leading indicators suggest a substantial contraction in housebuilding in Ireland in 2009

Public sector has a key role to play in supporting activity levels in the construction sector over the next three years

Tuesday 9th December 2008: Delegates at the Euroconstruct conference in Brussels last Friday were informed that there would be no recovery in construction output in Western Europe until 2011.

Comprising 19 Western, Central and Eastern European countries, the total volume of construction output across the Euroconstruct region is forecast to decline by 4.3% next year, following an estimated decline of 2.5% this year. Output is expected to stabilise in 2010 with a gradual recovery in 2011 (+2.2%).

Construction output volumes in the four Eastern European countries (Czech Republic, Hungary, Poland, Slovak Republic) are expected to increase by 4.8% in 2009 compared with 6.2% in 2008. The star performer is Poland, with a market worth almost €40 billion (almost the same as Ireland at the peak in 2007) where growth of 8% is forecast for 2009. Much of the impetus in Poland is coming from the civil engineering sector, one-third of the total market, where substantial investment will drive growth of 21%.

The forecasts have been revised downwards compared with the forecasts made last June, due to the global deterioration in economic conditions, the difficulties emanating in the banking sector and the decline in house prices, which is hurting the wealth of households. The weaker economic forecast for the Euroconstruct area as a whole is expected to lead to a decline in the total number of dwellings built across the 19 countries from 2.62 million in 2007 to 1.75 million in 2010, a decline of 33%.

According to Annette Hughes of DKM Economic Consultants, the Irish member of Euroconstruct, "there are many downside risks to construction prospects in the

Euroconstruct Area next year, not least the risk that the global recession will last longer than expected due to the ongoing credit crisis and declining house prices. It looks increasingly likely that the contraction in construction output in Western Europe will continue for another two years, while the end of the housing crisis is unlikely to take shape before the first half of 2011."

Looking at the performance of the member countries, Ireland and Spain, which held premier league positions over the past decade in the Euroconstruct rankings, stand out as the two countries expected to record the largest contractions in construction output in 2009. The volume of construction output in both countries is expected to decline by over 16% next year, led by a substantial contraction in new housebuilding: -42% in Ireland and -32% in Spain. The next three Western European countries to record declines in output in 2009 are Finland (-9.8%), Norway (-7.9%) and Italy (-5%). Notwithstanding the current difficult economic environment, civil engineering construction output is projected to increase next year in all 19 countries except Spain (-5.8%), Italy (-4.7%), Hungary (-3.8%) and Finland (-2.7%).

The estimated value of output in the Irish construction industry in 2008 is €30.5 billion compared with €38.5 billion at the peak in 2007. Overall output in the Irish construction sector is projected to decline by almost 13% over the period 2008-2011 or by 4.3% per annum on average. The only sector supporting new construction is the public sector where an Exchequer capital investment allocation of €8.74 billion is to be provided for core infrastructure projects in 2009. According to Annette Hughes, "the difference between now and the June forecast reflects the expectation that the extent of the contraction in construction output is now expected to be more severe and to last longer, with the result that the recovery, which was expected in 2010 in the June forecast, is now delayed until 2011."

The **Summary Report** of all papers read at the Euroconstruct conference and the **All Countries Report** containing detailed analyses and forecasts for the construction sectors of each of the 19 member countries, can be ordered from DKM Economic Consultants at www.dkm.ie

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