

Rising tide, but not all boats will lift

Spanish construction recovery seen at regional level

“A rising tide lifts all the boats” – that is supposedly the image used by President Kennedy to illustrate that an improvement in the national macroeconomic performance translates into an improvement in every business of the country.

At first sight, this nautical aphorism seems to be valid for the case of Spain. The recovery of the Spanish economy is now an unquestionable fact, with three years in a row (2015-2017) with GDP growing at more than 3%. The construction market also got back into black in 2015 and has kept growing since then. Therefore, we can say that the economic tide has refloated the construction boat. Some may add that foreign investment has played a leading role too, but in any case, the ultimate motivation for those investors has been the promising economic outlook for the country.

Every reader of the Euroconstruct Spanish report is surely aware that the recovery of the construction sector is not yet very substantial, since most of the growth comes from a single source –new housing– while the rest of the market remains quite static or is still in recession as in the case of civil engineering. Even if the forecast points to a likely improvement of the weaker subsectors, the Spanish market seems to accept that a complete recovery of each and every subsector is too ambitious a goal. If we put it again in Kennedy’s terms, this tide will not be able to lift all the boats. The consolation is that some boats floating is a far better prospect than the whole fleet stuck on the bottom, as witnessed during the 2010-2014 period.

New housing as the main driver of the Spanish construction sector is not without its advantages. For a start, we have more statistical sources to track its evolution than in other construction market niches. Since housing started to show the first signs of recovery in 2015, all the statistics (housing sales, prices, starts and completions) showed deep differences throughout the country. There were cities, and later on regions, bouncing back, restarting paralysed housing developments or even starting new ones; and at the same time, other parts of the country were showing no noticeable reaction, or were even decreasing their project pipelines even more. There was no lack of arguments to explain this kind of behaviour (differences in unsold housing stock, differences in foreign demand) but in the end the core reason was as simple as this: people want a home where there are jobs.

Over the last three years, all the players in the Spanish housing market have been on the lookout for the “hot” and “cold” spots in the market. As expected, the “cold” spots have been progressively improving so there are fewer parts of the country impervious to recovery. But at the same time, some of the “hot” spots have also turned “hotter”, increasing the pace of new construction projects. As a result, it is not clear now if the gap between the active and passive zones in an early 2015 analysis has shrunk in a very substantial way when we compare it with the latest 2017 data. Therefore, companies are losing interest in what the average national statistics have to say, and are focusing on local/regional performances. Maps seem to be back in demand and media reports display them prominently: it is important for developers to keep checking whether they are in the right places, or if they have failed to identify some new hotspot.

But so far the kind of maps we see in the media are just based on new housing. We wanted to contribute with another map to picture how the whole construction sector (housing, non residential, renovation and civil engineering) is behaving, region by region. The result is an interactive map published on the Euroconstruct site (www.euroconstruct.org/ec/blog/2017_08) where you can click on a region to see its indicators compared with the national averages.

The resulting map shows how the most active regions (darker colours) concentrate on the North and the less active ones (lighter colours) are clearly in the South. Madrid, among the best performers, is to be found in the centre and becomes the exception.

In a country like Spain, the North/South factor is almost a literal synonym for high/low economic level. Can we conclude that this is another sign of the famous correlation between economy and construction? It may only be a cliché, but it still works quite well in the Spanish case.

If we take the top-4 regions in terms of GDP per capita in 2016, we find that two (Madrid and País Vasco) are also in the top-4 in terms of construction growth prospects. But the other 2 regions high in the economy ranking (Navarra and Catalunya) have just average growth prospects in the construction market. The Balearic Islands are in the opposite situation: their economic performance is average, but their construction prospects are among the best.

In the lower positions of the ranking, the correlation between economic growth and construction becomes much more

straightforward. The bottom-4 regions in terms of GDP are also in the lowest positions in terms of construction prospects; and they happen to concentrate on the Southern part of the country: Andalucía, Murcia, Castilla-La Mancha and Extremadura. This is one point where the map for total construction differs from the map for housing only. The new housing map does not present such a bleak panorama for Southern Spain: it is true that the residential pipeline in Murcia is one of the worst, but Extremadura on a par with the Spanish average and Andalucía and Castilla-La Mancha are just below.

It is quite safe to diagnose that behind the apparent weakness of construction in some areas of the country there is also a background of weak economic performance. We cannot just look at the average national macroeconomic indicators, conclude that the crisis is over so construction must automatically follow, and then wonder why some regions are still underperforming. If some regional construction boats are not rising is for the lack of a regional economic tide to push them up.

An uneven recovery is an understandable side effect after such a deep crisis. But what if it becomes structural? At global level, there is a growing awareness about how the crisis has increased economic inequality, and how reversing this trend may be extremely difficult. Therefore, a mid-term scenario where the successful Spanish regions keep a healthy construction demand while the rest of the country continues in post-crisis shock, should be not be dismissed lightly.



CONTACT

Mr. Josep Ramon Fontana
ITeC

jfontana@itec.cat

www.itec.cat