

Boom in Austria's construction sector, widespread optimism in the industry

Austria is currently in the middle of an economic upswing. With forecasts of 3.0% in 2017 and 2018, growth rates are well above the European average, and even in the medium term conditions look favourable. The current upswing is based on a widespread increase in economic activity across virtually all segments of the economy. A number of drivers ranging from a pick-up in world trade to high consumer-confidence are responsible for the unexpectedly strong development. Similarly, the Austrian construction industry experienced a slow but systematic improvement since 2015. Now in 2017 all three major construction segments – residential construction, non-residential construction and civil engineering – are expected to exhibit significant production gains. Unlike the European development where housing is key driver, Austria's construction growth is strongly stimulated by non-residential construction. Since 2015, this segment proved more dynamic than residential construction, and is forecasted to grow by 3.4% in 2017. Especially corporate related construction works in the area of commercial, industrial and office construction benefit noticeably from the economic recovery.

A particular role in the current upswing takes business sentiment in the construction sector. WIFO's Konjunkturtest – an economic sentiment indicator that WIFO, the Austrian Institute of Economic Research, conducts on behalf of the European commission – shows that since the economic crisis, business sentiment in Austria's construction sector was very low, outright pessimistic. Except for a short lived mirage recovery in 2012, the number of pessimistic outlooks exceeded optimistic views by a wide margin. This indicator suggests that in two large waves since mid 2015, the mood in the construction industry shifted from considerable pessimism to high degrees of optimism. Firstly, throughout the second half of 2015 until early 2016, the economic sentiment regarding the current state of the construction sector as well as the outlook for the next months improved consistently over time. Optimistic views overtook pessimistic views in September 2015, levelling off at a largely neutral view of the sector until mid 2016. Then in a second wave, the indicator rose very strongly for more than 6 months in a row until spring 2017. In April 2017, the optimistic enterprises outnumbered the pessimistic ones by more than 20 percentage points. Since then the indicator has remained in a narrow band between with more than 20 and 30, underlining the very stable and consistent optimism in Austria's construction sector. As the results from the latest poll in Nov.

2017 show, there is no sign of a reversal in business sentiment yet (see info box below): the sentiment indicators emphasize the positive current situation and indicate that firms remain optimistic for the start of 2018. Moreover, according to the survey, the currently largest worry of Austria's construction companies appears to be a lack of (qualified) staff - largely exceeding other factors like a lack of orders or bad weather. This is another testimony of the current boom in Austria's construction industry, which has yet to show any signs of an ending.

INFO-BOX: BUSINESS SENTIMENT

November 2017 results for the construction industry

The economic assessment of Austria's construction companies in November 2017 remained at a high level of 27.0. This confirms the ongoing good business sentiment of Austria's construction companies.

Nevertheless, the seasonally adjusted index value in November declined by 1.1 points compared to October 2017. This minor downward movement is based on a slight decline of several sub-indicators. The assessment of the construction activity in the past three month shrank in November 2017 by one point compared to the previous month to a value of 18. At the same time the share of companies who reported an at least sufficient stock of orders declined by one percentage point and it is now at level of 84%. Additionally the share of companies who did not report production barriers declined from 48% to 45%. These production barriers cover several areas. The currently strongest restriction results from a lack of labour. 28% of the responding construction companies reported this as an issue. Weather conditions were also less favourable. 12% of the interviewed companies reported that weather was a hindering factor. This reflects an increase by 2 pp in this area compared to the previous month. Also a lack of orders was stated by 9% of the construction companies as a production constraint (increase by 1 pp compared to previous month).

The gains of business expectations in October 2017 had to be corrected additionally. The index lost in November 2017 the three points which it gained in October and is now located at a level of 13.9 points (balance). The current degradation of the index is mainly based on the declining price expectations. Nevertheless, the majority of the respondent companies expect rising construction prices in the next 3 month, but the balance declined from 21 points in October to 16 points in November. Labour expectations of the interviews construction companies only declined slightly by one point (total 12 points).

Based on the current economic framework conditions a further but slowed growth is expected for the upcoming growth.

Background-Information: Joint Harmonised EU-Programme of Business and Consumer Surveys

Since 1996 WIFO takes part on the Joint Harmonised EU Programme of Business and Consumer Surveys which is coordinated by the European Commission - Directorate-General for Economic and Financial Affairs.

Concept of the survey

The main idea of the WIFO business survey is to identify reliable and profound theoretical indicators – which can be carried out by companies as fast and as easy as possible – to derive the status of the economic cycle. A simple survey design assures a low burden for the participating companies. The target was to develop a questionnaire which should be answered by a skilled person in less than 5 minutes.

In most cases the evaluation is performed by calculating balances. This means that the share of positive answers of a question will be subtracted by the share of negative answers.

Example

Q: In the next three month our production will ...

1) grow 2) be nearly constant 3) decline

If 300 construction companies out 1.000 answer the question above with "grow" and 500 assume a "nearly constant" development and 200 state a "decline" then the result will be a positive balance of 10 percentage points (30%-20%).

Exceptions

There are some exceptions from this evaluation concept with balances. This mainly encounters with questions which do not fit to this general three staged survey concept. These questions are for example about capacity utilisation or the stock of orders. In the case of capacity utilisation the arithmetic mean in % will be derived, in the case of the stock of orders the share of companies (in %) which have a sufficient or more than sufficient stock of orders.

Seasonal adjustment

A further "speciality" is the occurrence of so called seasonal effects. These are patterns in the results of the business survey, which occur on an annual basis. It is known that companies' production expectations decline in autumn every year and revive towards the end of the year. These changes are not related to the economic cycle and therefore these special effects will be discounted. WIFO uses, in accordance with the European Commission, the DAINITIES method to make these seasonal adjustments.



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Figure 1: Business sentiment in Austria's construction industry

Source: WIFO. – Balances of the indicators including recent economic development

