Construction in France and Germany is expected to be penalised by a lack of demand, but should be bolstered by recovery plans in Italy and Spain

Since the health crisis, investment in construction has developed in some widely differing ways in the main Eurozone economies. The sector recovered quickly post-health crisis in France and Germany, but has fallen back since the beginning of 2022, mainly due to its residential component. In Spain, conversely, the sector still had catch-up potential at the start of 2022 and its non-residential component also benefited from funds from the European recovery plan. The situation in Italy is very unusual: investment in construction has grown by almost 45% since the end of 2019, as the result of a double budgetary stimulus combining the European recovery plan and the "Superbonus" scheme for housing renovation. In the coming quarters, the business tendency surveys suggest that these short-term differences are likely to continue between France and Germany on the one hand, where investment in building construction is likely to continue to fall back, affected by the increase in interest rates, and on the other hand between Italy and Spain, where the sector looks set to continue to be bolstered by the European recovery plan.

Gabriele Carboni, Meryam Zaiem

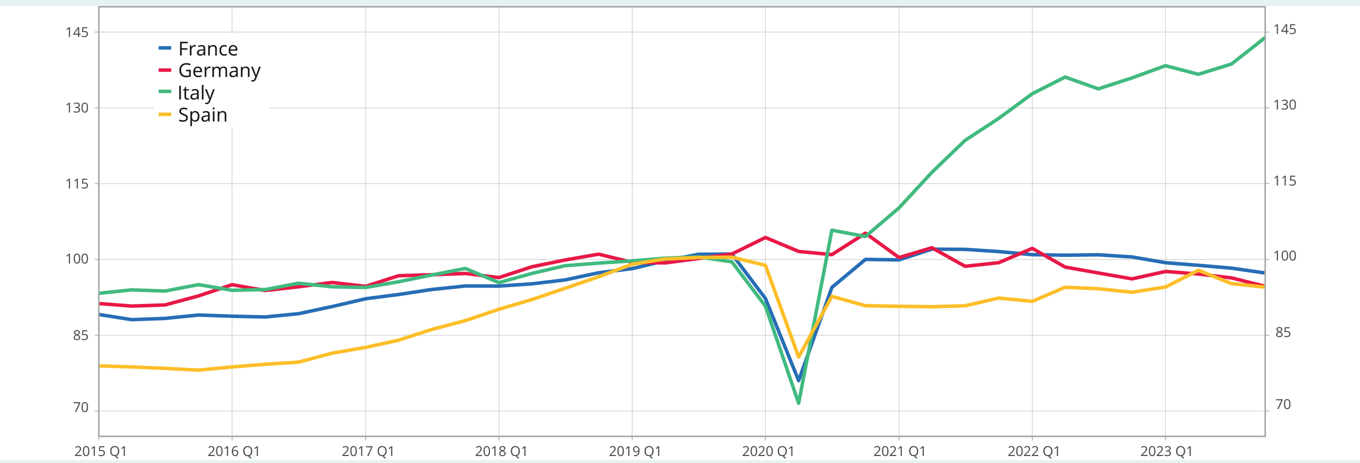
Since the crisis, investment in construction has risen by almost 45% in Italy due to government aid

Since the start of the decade, investment in construction has experienced some contrasting developments in the main Eurozone economies (►**Figure 1**). It fell sharply everywhere during the pandemic, except in Germany where construction activity continued despite the 2020 lockdowns. Coming out of the crisis, construction trends in France and Germany were fairly similar, immediately returning to levels comparable to those of 2019, but then they gradually slipped back from early 2022, affected especially by increases in property loan rates. In Spain, from the end of 2020 to the beginning of 2022, the sector stabilised at a level significantly lower than before the crisis and has since benefited from a catch-up dynamic. In Italy, it saw a spectacular rise in 2021 and early 2022, and has continued to increase since then, although less rapidly, exceeding its 2019 level by almost 45% at the end of 2023.

Investment in construction is made up of two main components: residential investment, which corresponds mainly to household investment[1] (bringing together the construction of new homes and major maintenance of second-hand dwellings), and non-residential investment, which tends to concern companies and general government, and corresponds to the construction and maintenance of non-residential buildings (offices, businesses, warehouses, etc.) and civil engineering works. Over the recent period, investment in construction in France and Germany has been mainly hit through residential investment and by non-residential investment to a lesser extent (►**Figures 2a** and **2b**). In Spain, the increases in investment that occurred in 2022 and 2023 came from non-residential investment, whereas residential investment has been virtually stable since the end of 2020 and is around 7% below its pre-health crisis level. Italy is in an unusual situation: residential investment increased

1 The breakdown by product given here does not correspond exactly to that usually used in the *Economic outlook* by institutional sector. In fact, part of the investment in housing comes from businesses (in France, especially when the owner is a social housing landlord), and conversely, part of household investment is in services (in particular costs linked to the purchase of housing in the second-hand sector).

►1. Investment in construction in the main Eurozone economies
(in level, base 100 in 2019)



Last point: Q4 2023.
How to read it: inQ4 2023, in Italy, investment in construction was 43.9% above its 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

very significantly in 2021 and at the beginning of 2022 was almost 60% above its pre-health crisis level. It stabilised in 2022 before increasing again in 2023. At the end of 2023, it stood at about 70% above the pre-crisis level. Non-residential investment grew more steadily and at the end of 2023 it stood at 16% above its level at the end of 2019.

The dynamism of residential investment in Italy derives from renovation work, which since mid-2020 has benefited from the introduction of the housing renovation scheme called the “Superbonus”. Although the terms of this aid have recently been modified to make it less attractive, until the beginning of 2023, under the scheme the government covered 110% of spending on renovation work. The total cost of the scheme is expected to be in excess of €140 billion by the end of 2023 (of which approximately half in 2023) and it has largely contributed to putting considerable strain on the Italian public debt over the recent period (in 2023 this debt stood at 7.2% of GDP after 8.6% in 2022).

For the coming quarters, the business tendency surveys suggest a relatively good performance of the sector in Italy and Spain, but the decline is expected to continue in Germany and France

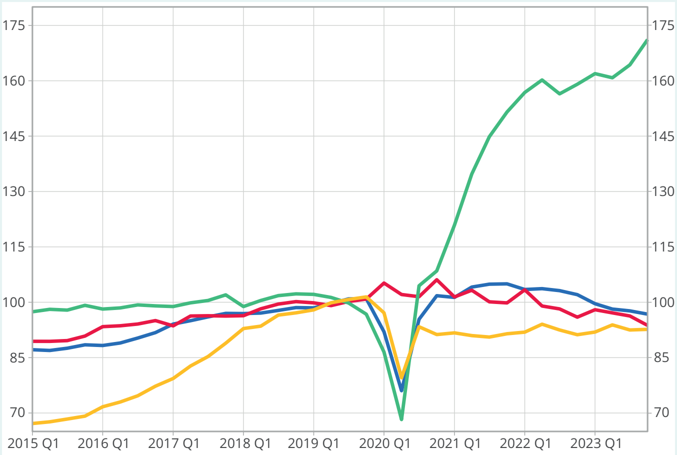
For the coming quarters, the business tendency surveys suggest that the economic divide in the construction sector is likely to continue: the business climate is certainly much more favourable in Italy and Spain than in France and Germany. It is well above its long-term average in Spain and even more so in Italy, whereas it has been falling for over a year in France and Germany, and has deteriorated particularly in the latter (▶ **Figure 3**). In Italy, in addition to government aid for renovation which, although it is has been tightened, has been maintained, the southern European economies are expected to benefit from substantial European funding from the recovery plan (excluding loans, the amounts for these two countries stand at €72 billion for Italy and €80 billion for Spain[2]), only part of which has so far been distributed by the European Commission. This funding is partly directed towards infrastructure projects (development of public transport networks and electrical infrastructure in particular).

From the business tendency surveys it is also possible to study those factors that are limiting the activity of companies in the sector in the different countries.

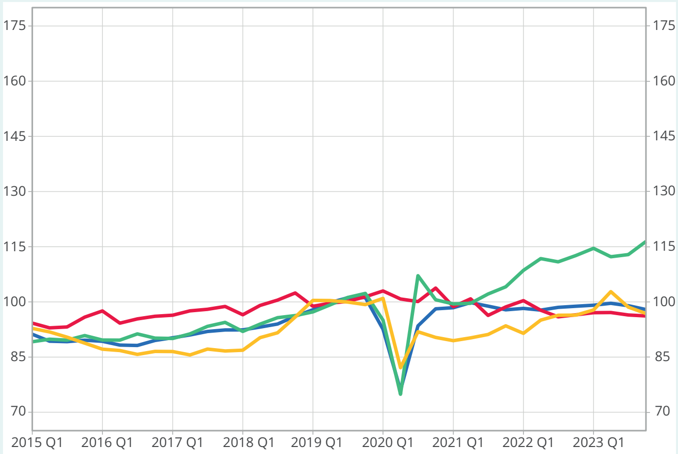
Thus in France and Germany and even more so in Spain, the lack of demand for new housing is hampering activity in the sector (▶ **Figure 4a**). Conversely, more and more Italian companies are citing the lack of labour force as a limiting factor (▶ **Figure 4b**). In contrast, the number of Italian companies reporting a lack of equipment as a limiting factor is declining, as it is elsewhere in Europe, although still at a higher level (▶ **Figure 4c**). More generally, the share of companies experiencing supply difficulties is declining in France and Germany but remains high or is increasing in Italy, where the sector is visibly having difficulty keeping up with demand, in a context where investment in construction has increased by almost half since before the crisis. French companies report limitations with labour force more often than companies elsewhere. ●

2 Mid-term evaluation of the Recovery and Resilience Facility (RRF), the EU’s recovery instrument, centrepiece of the NextGenerationEU plan.

▶ 2a. Investment in construction: residential component
(in level, base 100 in 2019)



▶ 2b. Investment in construction: non-residential component
(in level, base 100 in 2019)

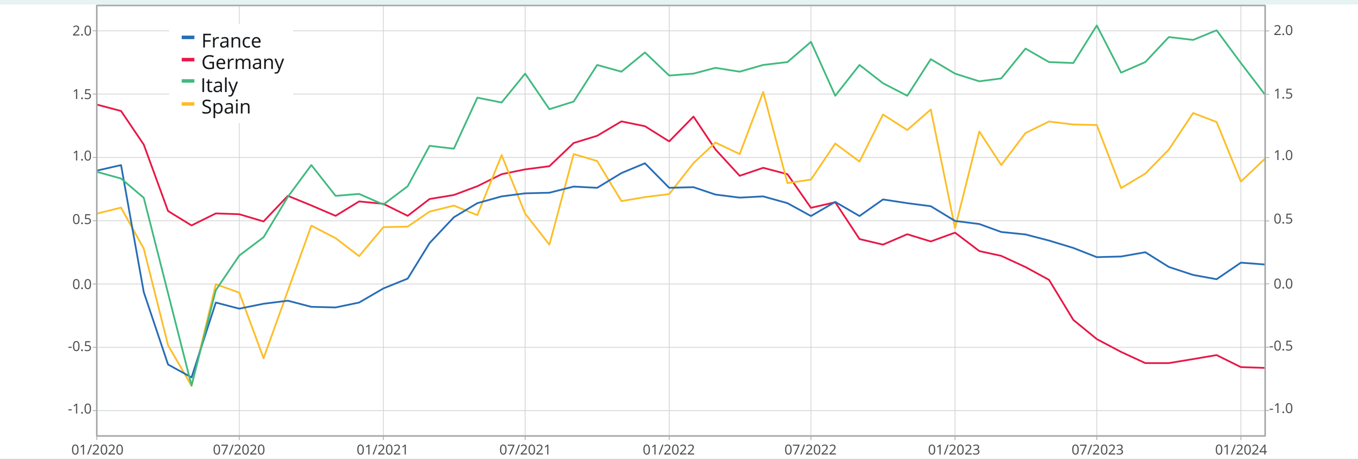


– France – Germany – Italy – Spain

Last point: Q4 2023.
How to read it: in Q4 2023, in Italy, residential investment was 71.2% above its 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

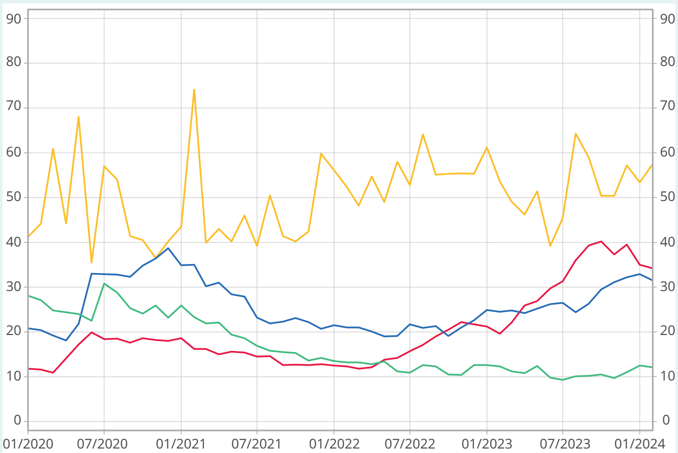
International economic outlook

►3. Confidence indicator in construction
(average balance)

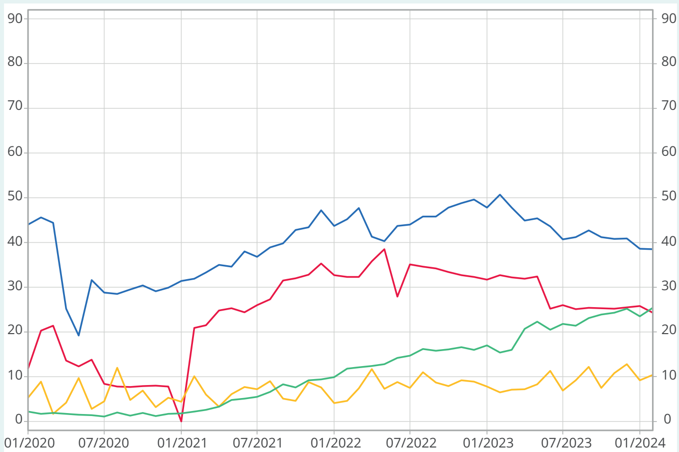


Last point: February 2024.
Note: data are taken from the business tendency surveys of companies. The construction confidence indicator is an aggregate indicator. It corresponds to the average of the balances on the current level of orders and on employment expectations in the next 3 months. This confidence indicator has also been centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries.
How to read it: in February 2024, in Italy, companies in the construction sector have a higher level of confidence than normal: the aggregate indicator is 1.5 points above its long-term average level (average of the balance between January 2005 and May 2023).
Source: DG ECFIN surveys, INSEE calculations.

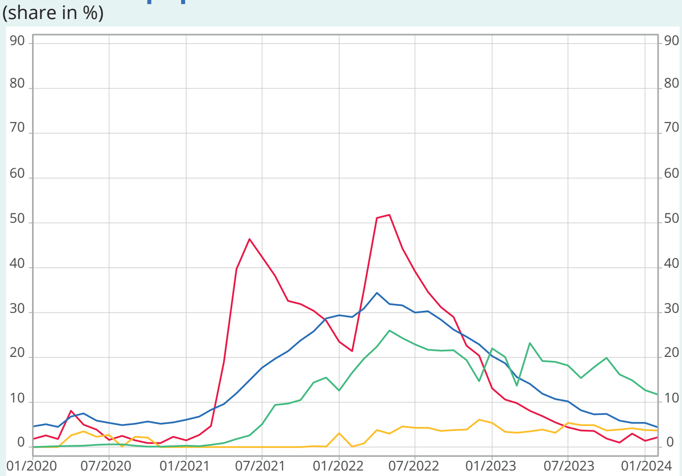
►4a. Companies where activity is limited by a lack of demand
(share in %)

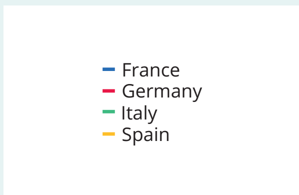


►4b. Companies where activity is limited by a lack of labour
(share in %)



►4c. Companies where activity is limited by a lack of equipment
(share in %)





Last point: February 2024.
How to read it: in February 2024, in Spain, 57.5% of construction companies reported that lack of demand limits their activity.
Source: DG ECFIN Surveys.