

Construction: a high-potential sector for a French economy still in need of targeted support measures

- The construction outlook remains gloomy in 2014: volume -1.5%
- Construction contributes 5% of GDP and involves 5% of the working population in France
- A faster exit from crisis would be possible with the right support measures for this complex sector

PARIS – 17 April 2014 – [Euler Hermes](#), the global leader in credit insurance, has taken stock of the construction sector in France, with a new report which analyses the problems and areas for potential growth for the French economy, provided the right support measures are in place.

The problems of 2013 have led to a gloomy outlook for 2014

In 2013, housing starts in France dropped -5% year-on-year (318,748 compared with 336,277 at the end of 2012). This was far below the government target of 500,000 starts which was set in January.

“In 2013, we entered the danger zone. We slipped below the 350,000 threshold, which is the minimum for meeting yearly needs corresponding to France’s sociological changes and demographic growth”, noted Didier Moizo, sector advisor for Euler Hermes. “Housing starts are still falling, but at a slower rate”.

Figures on residential permits do not herald an anticipated recovery during the first half of 2014. They fell significantly during 2013 (-11.7%). The movement in the cement production index confirms the sector’s troubles. At year-end 2013, this index was at its lowest level since 2001, and 23% below the March 2007 peak.

The realities and the overall sector analysis are more complex, because the latter covers many types of businesses: non-residential construction and public works, which also suffered in 2013 with volumes down an estimated -3% and -4% respectively. This means that improvement in certain segments or regions may help to offset some of the sector’s problems in 2014 despite the dim global outlook. Overall, construction sector activity may contract another -1.5% in 2014 by volume.

Moreover, the number of business failures in construction remains very high: 15,500 in 2013, as many as in 2012, giving a true indication of the structural fragility.

“This represents 25% of all failures, which is out of proportion to the sector’s weight in the economy. However, even with the very difficult and persistent problems, construction is showing a degree of resilience, and we see the number of failures stabilising”, added Sophie Allégot, head of Risk Arbitrage in the construction sector for Euler Hermes France.

Construction is a key sector with real growth potential

Construction is a linchpin of the French economy. It represents 5% of GDP and 25% of investment. The sector employs 1.3 million people, or around 5% of the active population, including many temporary workers. An increase in construction activity has an immediate positive effect on employment for the country, because most of the activities it involves cannot be outsourced to other countries.

1) Solid industry players that can compete internationally

Four large French construction firms have climbed to the ranks of the top 10 in Europe by revenues. French building firms are also positioned to benefit from the major highway and housing construction programme launched by Russia for the 2014-2020 period.

2) Favourable demographic trends

Unlike other European countries, France’s demographics are a growth factor for housing construction. During this decade, the annual growth rate of the population is likely to average 0.5%. Meanwhile, Germany’s population, for example, may continue to contract. In France, 700,000 people are caught in the housing shortfall.

3) The urgent need for renovation and upgrading to standards

France has a housing vacancy rate to the order of 7%, including units requiring renovation work before they can come back onto the market. Compliance with environmental standards is also a potential expansion factor. The needs are vast: 75% of housing units need work to bring them up to standards. In the near term, at least 100,000 units require emergency rehabilitation.

A faster exit from crisis still depends on implementing support measures to meet the needs of this complex sector

1) Re-launching large public sector projects:

In infrastructure, much highway and railway maintenance and modernisation has been deferred for budget reasons. The effect has been further amplified by suspension of the ecotax. In all, this represents several hundred million euros in revenues. Some of the spending will gradually become unavoidable. Major high-speed LGV rail projects, currently on hold, would revitalise the public works sector.

2) Re-launching purchasing power and confidence with incentives

The building trades sector, which includes many small firms, is paying a heavy price, but specific reforms, such as setting the VAT at 5% for thermal renovation, may help to breathe new life into it. Consumers' weak purchasing power also remains a major brake on a sector relaunch. Incentive measures to make new housing affordable and zero-interest-rate loans would also help revive the market.

Appropriate measures would contribute to strengthening the climate of confidence in construction, and a signal for change in the sector's confidence index is needed. In February, it stood at -31, representing an almost inversion of the September 2007 value of +29, making an average value of -7. If measures are not taken, the exit from crisis will be longer and more uncertain. It is even more urgent to take such actions because inertia will slow their positive effects on companies and hiring.

"Construction firms have been rendered vulnerable by several years of crises, especially as there are many small firms with little capital that have not managed to rebuild their own equity since the 2009 crisis", said Nicolas Delzant, Chairman of the Management Board of Euler Hermes France. "Some measures are urgently needed to give the sector a boost and immediately create jobs in France".

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