Recovery in European construction sector continuous

The last two years the market predictions looked very different in the European construction market. Where Germany seemed to have a quite stable market throughout the years, the Italian and Spanish construction market for example were hit quite hard during the last years. This quarter, for the first time since a long period indicators show a more steady image resulting in modest growth figures. Even in Italy, until now the worst performing country, stabilization can be seen as the market is expected to slightly grow again in 2017 and 2018. Spain and the Netherlands show the most promising growth figures in the coming years. These are some of the conclusions of the Q1 2016 European Architectural Barometer report, a quarterly research among 1,600 architects in eight European countries. European architects act as a leading indicator for the construction activities.

At the end of 2014 and beginning of 2015 we saw a fluctuation in the British residential building permits. Throughout 2015 this seemed to stabilize resulting in one of the highest all time indexes for residential buildings. Normally an increase in building volumes can be seen in approximately two years time, however we should be careful regarding the British market as other confidence indicators don’t show particularly positive figures. The improvement in the UK is visible but still, not yet very stable. Since the beginning of 2012 both the Q2Q Order Book and Turnover Barometer have been positive every quarter. This results in the highest Rolling Order Book and Rolling Turnover Barometer ever. The growth in the Q2 Barometers however are still seen, but are somewhat stabilizing and don’t show the growth figures we saw until the first half of 2015. The positive signs in the British market outweigh other more instable figures resulting in a growth prediction by Arch-Vision of the British construction market in 2016 of 4% which will continue in 2017 (2%) and 2018 (2%).

From Q3 2010 onwards there has been a steady positive development among the German architects. However 2015 turns out to be less steady: both the Rolling Order Book Barometer and the Rolling Turnover Barometer grew substantially in Q1. Q2 2015 seemed to be a dip regarding the Order Book and Turnover Barometer as both Barometers show the same growth figures as before. The image of a stable building permit development in Germany is still seen in recent quarters. Non-residential permits lie between a level of app. 95 and 100 (index 2010=100). The residential building permits show a substantial increase in the first quarter of 2016 (171). Although this a very positive indicator for the German market, the German market relies strongly on renovation, which means the increase in residential building permits won’t have a very big impact. Also other indicators as the industry and consumer confidence indicators remain negative and are further declining in Q1 2016. Nevertheless, Arch-Vision expects a slightly positive balance in the German construction sector in the next three years with growth figures of 3% in 2016, 1% in 2017 and 2% 2018.

The slightly positive developments that were seen in the French construction sector in the past quarters seem to encounter a small set back in the first quarter of 2016. Where the building permits show a positive and steady development throughout 2015 the effect of this will not be seen before 2017. Especially the Arch-Vision indicators look quite negative this quarter. Where in the last quarter of 2015 for the first time since more than three years both the Rolling Order Book and as well as the Rolling Turnover Barometer showed a positive movement, this did not continue in 2016 so far. Also the number of architects expecting an empty order book has increased again to a level comparable to 2014 (33%). Other indicators as the industrial and construction confidence indicators however show slightly more positive figures as the sentiment is becoming less negative. Although the French construction sector is clearly not yet where it wants to be, Arch-Vision predicts a somewhat stabilizing sector. In 2016 the market will slightly grow again (0.3%), which continue in 2017 and 2018 (0.1% and 0.4%).

The indicators are looking quite positive for Spain. In Q1 2016 the Rolling Order Book Barometer and the Rolling Turnover Barometer show positive signs, however they are still way below the point of before the crisis and they are not as high as could be expected based on Q5 2015. Also the development of the building permits shows a decline in Q4 2015. The permits for residential buildings seems to be quite stable since 2014, although not near the level of before the crisis. Also the non-residential building permits dropped compared to last quarter. Unfortunately the confidence indicators don’t look very positive in the first quarter of 2016. However, Spain is recovering from some very bad years and the sentiment seems to be not nearly as negative as in recent years. Therefore Arch-Vision predicts a further positive development of the Spanish construction sector in 2016 (+3%) and an even further growth in 2017 (+5%) and 2018 (+5%).

There are still some drops in the order book and turnover development, but since Q2 2015 the drops in the Order Book Barometer are smaller than those from Q1 2014 onwards (Q4: 18 points versus 23 and more in previous quarters). Unfortunately the Rolling Turnover Barometer seems to be at the same level of the beginning of 2015 as the slightly positive development can’t be continued in this first quarter. It makes Italy still the worst performing country. Improvement of the construction market in Italy will not take place in 2016, but there are some – although minor – positive signs. The latest available data on building permits show no big decreases as they used to show. This will have its influence on the construction sector in the 2 – 3 years after the building permits have been granted. So 2016 could already profit from the stabilizing building
permits in 2014. This same trend can be seen when looking at the confidence indicators: stabilization or only small differences showing quite positive figures compared to the first quarter of 2015. Although the outlook for the next twelve months is still not very promising as Arch-Vision predicts a shrinkage of the market by 1% in 2016. Stabilization is expected in 2017 and 2018 (0%).

2014 and 2015 were two very positive years when it comes to the Rolling Barometers in the Netherlands (133 for the order book and 118 for the turnover in Q1). The Rolling Barometers are the highest since 2011 and 2012 (Rolling Order Book Barometer: (+35!) and Rolling Turnover Barometer (-6) resulting in a continuation of the positive Rolling Order Book Barometer, we can also expect the first positive Rolling Turnover Barometer in Q2 2016 as the positive development is quite steady. At the moment 19% of the Dutch architects expect an empty order book within the coming 12 months, higher than last quarter, but still in accordance with numbers seen in 2015. The positive architectural sentiment can also be seen amongst other indicators such as the confidence indicator for the construction sector and the industrial confidence indicator which are still positive. The building permits however have both decreased for the second quarter in a row. Nevertheless Arch-Vision predicts positive developments for the Dutch construction sector: an increase in 2016 (+3%) and even continuously improvement in 2017 (+5%) and 2018 (+5%).

Belgian architects report fluctuating figures for their turnover in the past months. Where 2015 was closed with a substantial growth in turnover, Q1 2016 shows the same figures as 2014 did. The Order Book Barometer shows a stable growth throughout 2015 which was consolidated in the first quarter of this year. Both the Rolling Order Book Barometer and the Rolling Turnover Barometer have reached their highest point since the start of this research in Belgium. Although the building non-residential building permits showed a drop in Q3 2015, overall 2015 was quite a good year with modest growth seen in the residential permits as well as the non-residential permits. In total this leads to a prediction of the Belgian construction sector by Arch-Vision which is one of a steady and modest growth in future years: +2% (2016), +2% (2017) and +2% (2018).

The second half year of 2015 showed a positive image regarding the Order Book Barometer and the Turnover Barometer in Poland. The Order Book Barometer development continued the positive flow which was seen throughout 2015. The Turnover Barometer unfortunately shows a (temporary?) setback in the first quarter of this year. The Rolling Order Book Barometer is rapidly becoming more positive and has the highest value since Q3 2013. Poland is a country which heavily relies on new build with respect to the construction sector volumes (almost 75% of its total volumes). Therefore the trend in building permits should be watched closely. The stable confidence indicators and the increasing building permits throughout 2015 will have a positive influence on the mid-term. All together Arch-Vision expects that the Polish construction sector will show some minor increases: +3% (2016), +3% (2017) and +3% (2018).

Please find an overview of the most important figures on the next page.
More information
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About the European Architectural Barometer
The construction industry operates in a late cyclical market, which means that the buildings designed today will not be completed until at least two years from now. For that reason, architects are a good indicator for future building volumes. Besides that, architects are also very influential in how projects are built and which materials are used.

The European Architectural Barometer is a quarterly research among 1,600 architects in Europe. Four times a year, this study is conducted by Arch-Vision in the United Kingdom, Germany, France, Spain, Italy, the Netherlands, Belgium and Poland. The research covers the developments of architectural turnover, order volumes and the impact of the crisis. Besides these economic statistics, a topic is highlighted each quarter.

About the barometers:
The Quarter-to-Quarter Order Book Barometer presents the development from quarter to quarter. The Indicator is calculated on the basis of the answers given by the architects every quarter.
The Rolling Order Book Barometer is a cumulative indicator comparing the development in the current quarter to the quarter before the first measurement in Q4 2008. The main goal of this indicator is to show with regards to 2008 whether the order books of the architectural practices are recovering or not.

About the forecast model
The correlation with building volumes is tested for a total of 11 market indicators together with 2 outcomes of Arch-Vision. The correlation of the following 5 indicators appeared to be strongest:
- Building permits – m² of useful floor area in non-residential buildings
- Building permits, number of dwellings
- House sales (existing houses)
- Development of Turnover Barometer at architects (Arch-Vision figures)
- Number of FTE working at architects (Arch-Vision figures)

The predicting value of these indicators is between 54% and 91%.

The forecast for 2016, 2017 and 2018 is based on the market knowledge of USP Marketing Constancy together with the market figures and the statistical model used by Arch-Vision for the predictions in previous years.

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* For the Netherlands Rolling Order Book Barometer Q1 2016 vs. Q2 2009
** For Belgium and Poland Rolling Order Book Barometer Q1 2016 vs. Q2 2012