Could the next global crisis come from the construction sector?

- After ten years of growth (2008-2018), we have reached the peak in the global construction cycle: 2018 will be the turning point
- The construction is less prepared for a downturn than in 2008, which is essential since construction accounts for around 10% of total economic activity

Paris, 12th December 2018 – After ten years of growth (2008-2018), we have reached the peak in the global construction growth cycle: 2018 will be the turning point according to Euler Hermes' unique proprietary data on millions of companies across 70 countries.
Growth in this industry should gradually cool down to +3.0% in 2019, from +3.5% in 2018.

Over the past decade, most of the growth came from emerging markets (+57% since 2008), while developed markets have not even fully regained their pre-crisis volumes. Going forward, slowing GDP growth and tighter financial and monetary conditions will explain the deceleration in the residential sector (+3% y/y in 2019, after +3.5% y/y in 2018, and +4% y/y in 2017). Necessary fiscal discipline and the impetus of e-commerce respectively explain the limited boost expected from the infrastructure and commercial segments.

According to our local experts, who report their sentiment every quarter regarding demand, profitability, liquidity and business environment, the construction sector has been incapable of building buffers and fully recovering from the 2008 crisis despite the healthy expansionary global business cycle:

- Liquidity has historically been, and will remain, the largest pain point for the industry on a global scale with the average construction sector DSO remaining at 85 days, suggesting that construction remains among the top three worst preforming sectors in regard to payment delays.

- Demand has barely recovered in some of the largest construction markets. The volume of growth on the construction markets in developed economies was negative (-0.4% CAGR) during the current global construction cycle (2008–now). In some of the largest construction markets, such as France, Germany, Italy and the US the demand has still not recovered to the pre-crisis volumes.

- Profitability has also been under increasing pressure from rising input costs, most notably labor costs.

As a first sign of turnaround, the synchronous deterioration across a wide range of geographies is noticeable in the latest major insolvencies statistics: over the first nine months of 2018, there has been 41 major insolvency cases registered (+7), more than in the retail sector (39).

"*While growing for the past decade, the construction sector did not "repair the roof while the sun [was] shining" to quote J.F. Kennedy. According to our proprietary data, on dozen of millions of companies across 70 countries, average sector risk ratings for demand, profitability and liquidity did not improve. As a result, the construction sector is* *less prepared for a downturn*", said **Ludovic Subran, Global Head of Macroeconomic Research at Allianz and Chief economist at Euler Hermes**.

The construction sector is definitely a good candidate for being the biggest victim of the next crisis. This is essential since construction is an important part of all economies (advanced and emerging) and plays a role in magnifying or reducing the impact of a cyclical slump.

Five construction outlooks for 2019:

1. **The US**: Construction to grow by +3% y/y in 2018 and +2.1% y/y in 2019. Residential market shows warning signs. Demand and operating margins below pre-crisis level.
2. **China**: Construction to grow by +4.2% y/y in 2018 and +4% y/y in 2019. Rising leverage and high liquidity risk.
3. **France**: Construction to grow by +1.6% y/y in 2018, and +1.5% in 2019. Weaker demand and operating margins. Liquidity, after a long period of improvement, is starting to show the first signs of stress.
4. **The UK**: Construction to grow by +0.5% y/y in 2018 and +1.5% in 2019. Recovering demand, but crippled profitability and deteriorating liquidity. The uncertainty over Brexit continues to weigh on business and consumer confidence.
5. **Germany**: Construction to grow by +2.9% y/y in 2018 and +2.8% y/y in 2019. Solid demand and profitability. However, liquidity has stopped improving and is showing first signs of deterioration.

Our latest construction report is available here

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