



## Chart in focus

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# Construction industry

## Uncertainty shock subsides

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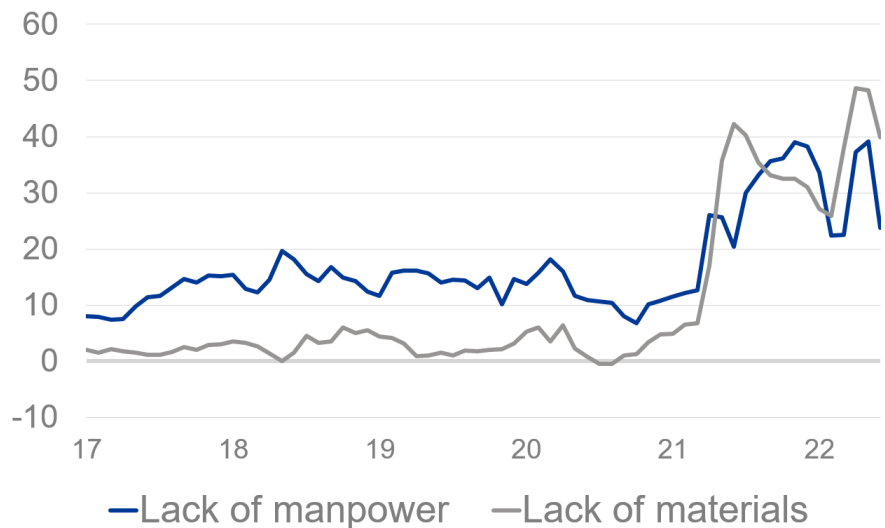
Stefan Schneider



In the last months the strong headwinds for the construction industry are expected to ease as commodity prices fall and material and labor shortages begin to decline.

ifo: Construction survey

### Share of affirmations in %, seasonal adjusted



Source: ifo, Deutsche Bank Research

In recent months, the construction industry has been facing a lot of headwinds. The war, high commodity prices and rising interest rates have led to an uncertainty shock after the 13-year boom. Developers have probably postponed several projects. After the weak new construction in 2021 of around 293,400 completed flats, new construction in 2022 is likely to be below 300,000 as well. Supply will therefore remain subdued. At the same time, demand for housing has increased strongly in recent months. Net immigration surprised to the upside in 2021, reaching 329,000 persons. The influx of Ukrainian refugees is likely to boost housing demand even more. This means that our projections in the Housing Market Outlook 2022 that the demand overhang would soon subside were too optimistic. The fundamental supply shortage is likely to persist, at least into 2023. Possibly even longer if



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net immigration continues to rise more strongly than we have projected, assuming an increase of 311,000 persons per year so far.

The high demand should soon boost construction activity again. Several recent developments also point to a subsiding uncertainty shock. For example, commodity prices have fallen again relative to March 2022 averages. Crude oil and gas prices fell only slightly, but prices for base metals have dropped by 10 to 30%. Also, ifo surveys in June indicate that shortages of materials and personnel are beginning to ease again. In May, almost 50% of the construction companies surveyed still complained about material shortages; in June the figure fell to below 40%. Almost 40% of the companies said they had a shortage of staff in May, while in June the figure was only around 23%. At the same time, the order backlog in June was still close to its all-time high at 4.6 months.

Conclusion: Construction activity should pick up soon and uncertainty in the market should ease again somewhat. Vacancy build-up is unlikely to be an issue in 2023. However, the German government's target of building 400,000 flats is likely to be even more distant in view of the temporary setback triggered by the uncertainty shock in recent months.

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