



Restructuring in the construction sector

Executive summary

Introduction

Construction, one of the largest sectors of activity in Europe, has been severely affected by the current global recession, although the impact of the crisis and the timing varies greatly between EU Member States. In many countries, there were clear signs of a downturn in production and employment in the second half of 2008. In others, although the downturn was not evident in the figures up until the end of 2008, there were signs of a decline on the horizon. Parts of the construction sector, such as residential housing construction, have been harder hit than others. Moreover, manufacturers of building materials for the sector have also reported a decline in output. Due to the lapse of time between output declining and jobs being cut, the full effects of the downturn are yet to be seen.

This report from the European Restructuring Monitor (ERM) reviews recent developments in the construction sector throughout the EU, highlighting the effects of the downturn in economic activity in many countries and outlining how companies and governments have responded. It is based on responses to a questionnaire from the network of national centres of the European Foundation for the Improvement of Living and Working Conditions. The information compiled for each country covered in the study – most of the EU27, except France, Hungary and the Netherlands from which no information was received, and Norway – is supplemented by data from the European Labour Force Survey on the characteristics of construction workers, Eurostat's *Structural Business Statistics* on company size distribution, and quarterly national accounts data on production and employment.

Policy context

In order to tackle the current economic crisis, governments across the EU have launched a range of measures, including policies geared towards stimulating construction, particularly the expansion of public works programmes or the acceleration of investment already planned. Substantial expenditure has gone into

infrastructure, such as roads and railways, non-residential building, maintenance and repairs.

Some governments have introduced tax concessions to stimulate demand in certain parts of the construction sector, particularly housing construction. On occasion, such measures have been complemented by subsidies for renovation and building purposes, including public buildings and civil engineering projects. Other countries, especially in southern Europe, have amended the regulations applying to public works so as to increase company liquidity by reducing the time between invoicing and payment.

Governments have also changed the rules and regulations on social security payments to help maintain the incomes of workers affected by company measures to reduce wage bills, entitling these workers to some form of social benefit. However, this measure does not always cover workers on the fringes of the labour market – migrants, temporary agency workers or self-employed workers. More direct support such as short-time working allowances or partial reimbursement of social security contributions has helped companies in some Member States to cope with financial losses.

In some cases, governments have considered active labour market measures, such as training programmes, to improve the employability of low-skilled workers losing their jobs in construction and also to tackle skills shortages.

Construction companies have also adopted a range of policies to respond to the downturn, such as working time reductions, temporary dismissals, wage cuts and redundancies. In countries where construction has not yet been significantly hit by the recession, any workforce reductions to date have stemmed from the non-renewal of temporary employment contracts. Some companies have also employed workers on temporary and service contracts, allowing for more flexibility in times of worsening economic conditions.

Key findings

Employment levels

The construction sector accounted for just over 8% of employment in the EU and Norway in 2007. The importance of the sector in terms of employment varies markedly across the EU: for instance, in Ireland and Spain, employment accounted for over 13% of total employment, compared with 6% in the Netherlands and Slovenia.

In most countries, employment in construction increased between 2004 and 2007, apart from in the Czech Republic and Denmark where it remained unchanged, and in Germany and Luxembourg where employment fell. Before the onset of the recession, employment in construction was growing across Europe, with growth rates between 2004 and 2007 being significantly above the EU average in Ireland (over 4% a year), Spain (about 4%), and Bulgaria, Cyprus, Estonia and Latvia (3%).

Type of contract

Many workers are on fixed-term or temporary employment contracts. In 2007, the number of workers on such contracts amounted to 20% across the EU. In Spain, over half (52%) of employees were employed on such contracts, in addition to 44% in Poland and 30% in Portugal, while this applied to only 15%–17% of employees in France, Germany, Greece and Slovenia.

The number of construction workers on non-standard employment contracts – temporary agency workers and self-employed workers – was, therefore, sizeable in many European countries and thus more significant than in other economic sectors. In over half of the countries, workforce reductions have mainly affected those on temporary employment contracts: many of them low-skilled workers and migrants, or self-employed individuals on contract.

Profile of the workforce

The characteristics of the construction workforce are similar in all countries. The workforce comprises mainly men, many of whom are manual workers, aged 25–54 years. The majority of employees are skilled manual workers, such as builders, carpenters, painters or electricians, who accounted for over 60% of the total EU construction workforce in 2007. About another 7% were employed as drivers or plant operators and just under 10% as labourers or in other

elementary jobs. Managers comprised only 7% of the total construction workforce and other professionals – architects, civil engineers and accountants – comprised just 10%.

Company size

Construction is a sector dominated by small businesses and even if these proportions differ across countries, in most of them the general pattern is similar. In the EU, some 42% of the total employees in 2006 worked in companies with fewer than 10 people, another 15% worked in companies with 10–19 people and a further 16% in companies with 20–49 employees. In total, therefore, around 73% of all those working in construction were employed in companies with fewer than 50 employees.

Commentary

The financial and economic crisis, which sparked off in the United States and spread at varying speeds to other countries, has affected the construction sector in all EU Member States during 2008, albeit to varying degrees. The findings highlight national differences regarding the indicators that have been used: employment, workforce characteristics, company size and production output. This means that Member States must not only address these issues from different perspectives, but they must also tackle different problems associated with these factors.

In terms of employment, workers – particularly lower-skilled younger and migrant workers – on temporary employment contracts have been adversely affected by the downturn in the construction sector as employers have sought to retain skilled workers. This shows the high flexibility – lower hiring and firing costs – of the labour market in the sector which allows for adapting to fluctuations in demand and production, while providing little or hardly any security to those workers who are most vulnerable.

Another factor facilitating the sector's adaptability is the size of construction companies, which are mostly small and medium-sized enterprises. Some companies have attempted to safeguard jobs through temporary layoffs, reduced working hours or wage cuts to lower the cost of keeping people in employment. Efforts need to be stepped up at company and national level to stimulate new orders, protect jobs, increase employability and reduce the impact of unemployment.

Further information

The report on *Restructuring in the construction sector in 25 EU Member States and Norway* is available at www.eurofound.europa.eu/emcc/erm/studies/tn0904036s/tn0904036s.htm

John Hurley, Research officer
joh@eurofound.europa.eu