Russian-Ukrainian conflict
Impact on the construction sector worldwide
30/10/2023

General and construction

EUROPEAN UNION NEWS

The annual inflation rate fell again in August 2023. It stood at **5.9%** in the **European Union**. The **eurozone** recorded a rate of **5.2%** in the 20 countries with the single currency. These figures were 6.1% and 5.3% respectively in July 2023.

The countries with the lowest annual inflation rates are **Denmark** (2.3%), **Spain** and **Belgium** (2.4%). Conversely, **Hungary** (14.2%), the **Czech Republic** (10.1%) and **Slovakia** (9.6%) are the countries most affected by rising prices. **France** ranks twelfth among EU economies, with an annual inflation rate of 5.7% in August 2023.

Major economies such as **Germany** (1st in the EU) and **Italy** (3rd) are experiencing record inflation rates of 6.4% and 5.5% respectively. The former has not seen such figures since the 1950s, and the latter for almost 40 years.

Energy prices have risen exceptionally (crude oil prices jumped 350% between April 2020 and April 2022, the biggest two-year increase since 1973), as have food prices, since Ukraine and Russia account for around 30% of international wheat exports. Although wholesale energy and commodity prices have been falling in recent weeks, their impact on household wallets and on inflation in other sectors (which use energy to produce or sell) continues to be felt (throughout Europe).

Electricity market reform

On Tuesday 17 October, the 27 Member States reached agreement on a reform of the European electricity market, after months of

Ukraine / Russia

Russia - EU: Gas imports

Figure 1 shows weekly extra-EU27 natural gas imports for 2021 and 2022, compared with the minimum and maximum weekly imports for the period 2015-2020. The figure shows imports exclusively from Russia (Bruegel).

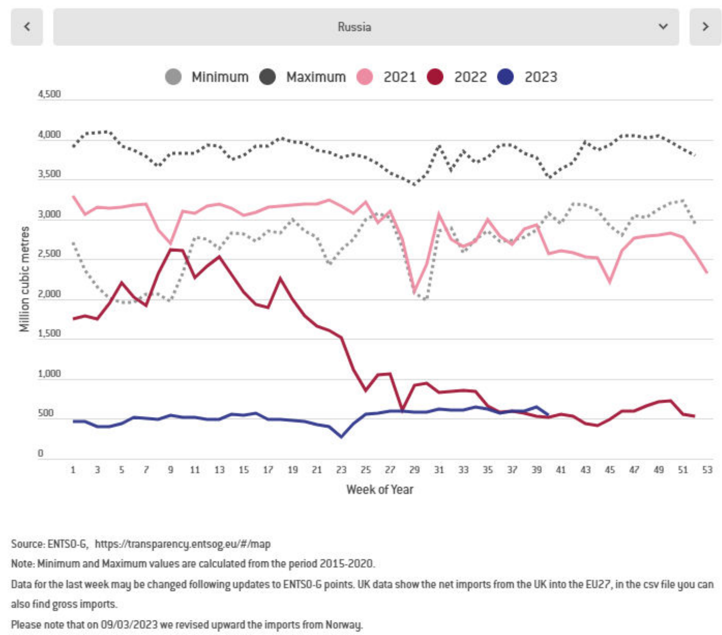


Figure 4 shows monthly EU27 LNG imports by region of origin since January 2020. While in the summer of 2021, natural gas imported from Russia by pipeline began to decline, the volumes of Russian LNG bitter negotiations between France and Germany over support for nuclear power, the European Council announced. The text, approved by the energy ministers and now to be negotiated with MEPs, aims to make greater use of long-term contracts to smooth out the impact of market volatility on consumers, and to offer greater predictability to investors through state-guaranteed price contracts. But above all, the pivotal point of this agreement is the introduction of the "contract for difference", a measure that will ultimately benefit all decarbonised installations: wind, solar and nuclear.

The way they work is simple: a reference price is set above the production price - for example, between €60 and €70 per megawatt hour in France, much more in countries dependent on gas or coal - and if the market price is lower, the State compensates the producer for the financial loss. If the market price is higher, the government takes the money and redistributes it to consumers (rfi).

COUNTRY FOCUS

Germany

The German government has revised downwards its economic growth forecasts for the current year, predicting a more severe economic crisis than expected and a slower recovery, according to its revised autumn forecasts published on 11 October.

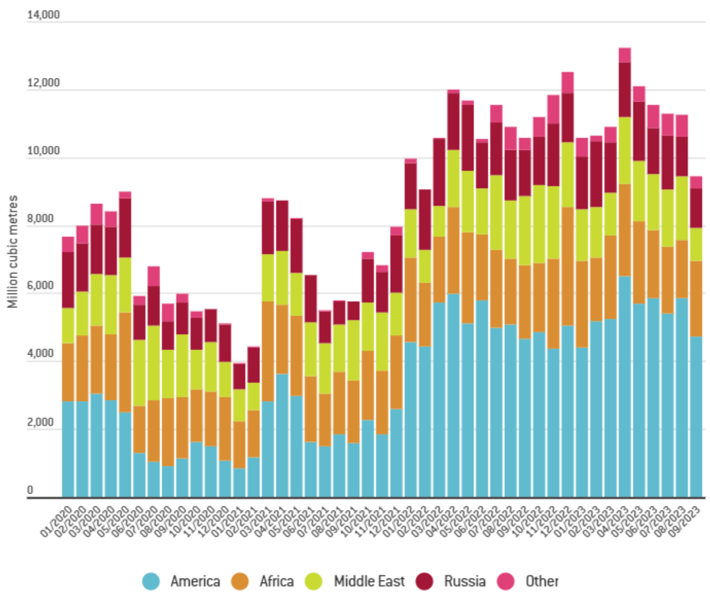
While the government's spring forecasts predicted moderate growth of 0.4%, the revised autumn forecasts anticipate a contraction of 0.4%. The government has also lowered its forecasts for next year, now expecting growth of 1.3% instead of 1.6%.

The Economics Minister has attributed the economic problems to Germany's disproportionate exposure to the consequences of Russia's invasion of Ukraine, due to its previous dependence on Russian gas (Euractiv).

reaching European LNG terminals have, to date, not been affected (Bruegel).

Figure 4: EU27 LNG monthly imports by region of origin

Last updated: 11/10/2023 (updated every month)



Source: Bruegel based on Bloomberg

Note: America represents the sum of the United States of America and Trinidad & Tobago. Africa is the aggregate of Algeria, Angola, Nigeria, Egypt, Cameroon and Equatorial Guinea. The Middle East displays the sum of Qatar, Oman and United Arab Emirates. The Other category is the sum of LNG from Argentina, Australia, Brazil, China, Indonesia, Jamaica, Malaysia, Norway, Peru, Singapore, South Korea and the United Kingdom.

Study: How can the European Union achieve its goal of eliminating all imports of Russian fossil fuels by 2027?

Hungary - Ukraine: The EU seeks to support Ukraine by putting billions of dollars of frozen funds on the table for Hungary

France

The pace of activity in the sector during the summer months was encouraging, and order intake remained buoyant. However, this general observation masks major disparities between trades and regions, leaving many companies still without visibility. For the time being, the momentum of public-sector orders can be seen mainly in the major urban areas, while public works activity with private customers could suffer in the short term from the slowdown in property construction.

The volume of work carried out in August 2023 rose by 8.4% compared with August 2022. Despite a slight fall compared with the previous month (-3.2% - cvs-cjo data), the amount of TP billings over the summer period 2023 (June-August) is significantly higher than that seen a year earlier (+10.5%), at the height of the surge in production costs. Cumulative activity since January has risen by 4.8% (in constant euros) compared with 2022.

Contracts concluded in August 2023 remained at a higher level than in 2022 (+4.1% in constant euros compared with August 2022). Over the last 3 months, the value of new contracts has risen by +7.5% compared with the previous 3 months. Cumulative new orders since January, boosted by large-scale projects and dynamic investment by local authorities, are up 14.5% on last year (FNTP).

Luxembourg

At its meeting on 25 September, the FEDIL Board of Directors reviewed the economic news of recent months, characterised by the persistent effects of the energy crisis and inflation on a number of highly exposed business sectors.

The situation in the construction industry is particularly serious, with a sectoral job maintenance plan aimed in particular at housing construction that cannot be avoided. FEDIL expects the

The European Union is considering releasing billions of euros for Hungary, which have been frozen over concerns about the rule of law, in order to secure Budapest's approval for aid to Ukraine, including the opening of accession negotiations for Kiev, senior officials have said.

Hungary cultivates closer ties with Russia than other EU states and is seen as the main potential opponent to a decision to be taken in December on the opening of accession negotiations with Kiev, which would require the unanimous support of all 27 EU members (Reuters).

Russia

At the beginning of September, Russian Deputy Prime Minister Alexander Novak announced that Russia would extend the reduction in oil exports by 300,000 b/d until the end of 2023. This followed other announcements of export cuts designed to support prices and maintain a minimum of stability and balance on the oil markets.

Russian seaborne oil exports hit an 11-month low in August, according to S&P Global Commodity Insights, and spot prices for the key export grade from the Urals have been trading above the Group of Seven cap of $60 per barrel since mid-July. However, according to a US Treasury Department official, the price cap has reduced Russia's production and revenues. What's more, the price cap may not only hurt Russia's coffers. Russian Energy Minister Nikolai Shulginov said in September that the price caps imposed by the G7 were hurting the global economy.

Much of the sanctioned Russian crude oil has gone to China and India, which Shulginov expects will absorb more than 100 million metric tonnes of Russian exports by the end of 2023, a 15% year-on-year increase. One of the ways in which Russian exports continue unabated, albeit at lower levels than a year ago, is through the use of vessels from the shadow fleet. Opaque offshore transfers of Russian oil more than tripled in the second quarter compared to the previous

	government, which will emerge from the 8 October elections, to urgently overcome the barriers that have so far prevented the implementation of a real policy intelligently mobilising the know-how and resources of the private sector to boost housing development at a time when the sector is experiencing one of its worst crises and is beginning to lose skilled workers who will be sorely missed when activity picks up again. The accumulated delays in housing development over the last few years are already weighing heavily on the growth of our economy as a whole, with the Luxembourg model being called into question as a result. Without adequate housing, it will also be very difficult to attract or retain the talent that the country needs for its future development, and the best of strategies will not bear fruit if the housing problem remains unresolved. With regard to the cost of energy, FEDIL is calling for a reform of the current model for determining tariffs for use of the electricity grid. The aim is to ensure that the energy transition and its effects on the networks do not translate into a disproportionate burden for electricity-intensive businesses, whose profitability is strongly influenced by this cost factor. Again in the interests of preserving the profitability of our industry in the face of international competition that is benefiting from much more favourable energy prices, FEDIL believes that in the short term the framework and selective support measures currently in place should be maintained beyond the current year. The FEDIL Board of Directors is also deeply concerned about the excessively high rates of absenteeism recorded in several sectors of activity. Combined with a whole series of additional leaves introduced by recent legislation, this absenteeism poses serious problems in terms of availability, management and labour costs, with negative repercussions that are likely to extend well beyond the sectors concerned.	quarter, suggesting that Russia has turned to shadow fleet tankers to circumvent the EU embargo and the G7 price cap. During the second quarter, at least 47 million barrels of Russian crude and products were transferred by vessels with deactivated tracking transponders, according to data from S&P Global Market Intelligence and S&P Global Commodity Insights (S&P Global). **European Commission approves Romanian measure worth up to €24 million to improve port capacity and Ukraine/EU solidarity corridors** On Friday 13 October, the European Commission announced that it had approved a Romanian measure worth up to 24 million euros (118.6 million RON) to support investment in seaports and inland ports in the context of Russia's aggression against Ukraine. The aid should make it possible to improve the operation of the 'Ukraine-EU solidarity corridors' by remedying capacity shortfalls in the superstructure (Agence Europe).

	Without wishing to interfere in the tariff negotiations of individual companies, FEDIL wishes to emphasise that it strongly deplores the recent strike at Cargolux and the nature of some of the demands made. This strike has left its mark far beyond the sector concerned, and its open celebration by union leaders is damaging the credibility of those who want to sell the country's brand image using the argument of social peace (FEDIL). **Poland** On Friday 6 October, the European Commission announced that it had approved a new Polish aid programme worth around €1.2 billion (PLN 5.5 billion) to support energy-intensive businesses faced with rising energy costs due in part to Russia's military aggression against Ukraine. The temporary crisis framework provides for the following types of aid, which may be granted by Member States: • Limited amounts of aid, in whatever form, for businesses affected by the current crisis or by subsequent sanctions and counter-sanctions up to the increased amount of €62,000 and €75,000 respectively in the agriculture, fisheries and aquaculture sectors, and up to €500,000 in all other sectors; • Liquidity support in the form of state guarantees and subsidised loans; • Aid to compensate for high energy prices. The aid, which can be granted in any form, will partially compensate businesses, particularly large energy consumers, for the extra costs caused by exceptional increases in gas and electricity prices. The overall aid per beneficiary may not exceed 30% of eligible costs and, in order to encourage	

	energy savings, may not relate to more than 70% of its gas and electricity consumption during the same period in the previous year, up to a maximum of €2 million at any one time. Where a business suffers operating losses, additional aid may be required to ensure that economic activity continues. Consequently, for energy-intensive users, aid intensities are higher and Member States may grant aid exceeding these ceilings, up to €25 million, and for companies active in particularly affected sectors and sub-sectors, up to €50 million; • Measures to accelerate the deployment of renewable energies. Member States may establish investment schemes for renewable energy, including renewable hydrogen, biogas and biomethane, storage and renewable heat, including heat pumps, with simplified tendering procedures that can be implemented quickly, while including sufficient safeguards to protect a level playing field. In particular, Member States may design programmes for a specific technology, requiring support in view of the particular national energy mix; and • Measures to facilitate the decarbonisation of industrial processes. To further accelerate the diversification of energy supplies, Member States may support investments aimed at phasing out fossil fuels, in particular through electrification, energy efficiency and the switch to the use of renewable hydrogen and hydrogen from electricity that meets certain conditions. Member States can either set up new schemes based on calls for tender, or support projects directly, without calls for tender, with certain limits on the proportion of public aid per investment. Specific additional incentives would be provided for small and medium-sized enterprises and for particularly energy-efficient solutions (Agence Europe).	

USA

The number of US construction workers leaving the sector has begun to slow, as opportunities in competing industries dry up.

These are the findings of new figures from Associated Builders and Contractors (ABC), which studied data from the US Bureau of Labor Statistics.

The ABC found that there were 350,000 job vacancies in the construction sector in August 2023. This is 3,000 fewer than in July, but 5,000 more than in the same period last year.

A total of 167,000 workers left the sector in August 2023, 15,000 fewer than in July and 60,000 fewer than in the same period the previous year.

"The number of open and unfilled jobs in the construction sector fell in August, but remains higher than a year ago and than before the pandemic", said Anirban Basu, chief economist at ABC (Construction Europe).

All the main construction sectors in the United States saw their spending increase in August 2023, although the persistent shortage of skilled workers could put the brakes on growth.

This is according to the Associated General Contractors of America (AGC), which recorded a 0.5% increase in total spending over the month compared to July.

Construction spending, unadjusted for inflation, totalled 1.98 trillion dollars in August, at an annual rate.

Spending on private residential construction rose for the fourth consecutive month in August, by 0.6%. Spending on private non-residential construction rose by 0.3% in August, while investment in public construction increased by 0.6%.

Spending was mainly positive in the large non-residential segments. Spending on power stations, motorways and streets,

	offices and healthcare rose by 0.4% over the month. Construction of educational establishments remained stable. By contrast, commercial construction - which includes warehouses, retail and agricultural construction - fell by 0.9% in August compared with the previous month. The AGC welcomed the growing demand for construction services but warned that construction companies remained concerned about finding enough skilled workers to meet demand. The association's representatives pointed out that their recent survey on the workforce revealed that 88% of construction companies that are hiring are struggling to find enough skilled workers (Construction Europe).	

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