Box 2
Recent Performance of GDP in the Construction Sector and Prospects for 2019

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Graph B2.1
Aggregate Value of Construction and its Components
(Seasonally adjusted and corrected for calendar effects)

A.   Construction

■ Aggregate value   —— Annual change (right scale)

The figures on gross domestic product (GDP) in the first quarter of 2019 (seasonally adjusted and corrected for calendar effects) show construction, on the supply side, was down 4.5% annually and 4.0% quarterly. This was the second consecutive quarterly decline in construction, since it also registered a slight drop during the final quarter of 2018 (Chart B2.1).

In terms of components, most of the decline was due to building construction,[1] which fell 8.8% annually and 9.6% quarterly in the early months of the year. Civil works construction rose 4.7% annually, but contracted 5.3% quarterly, after posting a recovery from the second to the fourth quarter of 2018.

A look at the subsectors shows the quarterly drop in building construction was concentrated mainly in the residential branch. According to building census conducted by the National Bureau of Statistics (DANE), with figures up to the first quarter of the year, the reduction in structure completions between quarters in the twenty territories covered came to 13.2%. Nearly two-thirds of that decline pertains to buildings for residential use (with a quarterly variation of -11.8%); the other third corresponds to buildings for non-residential use (Chart B2.2).
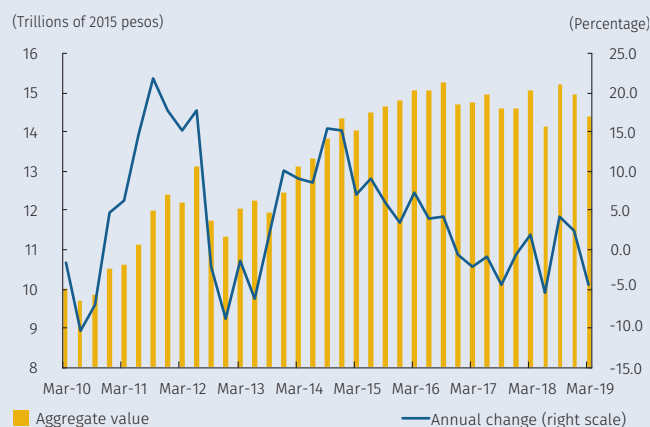
As for the construction of civil works, the DANE indicator of investment in civil works (Spanish acronym: IIOC) suggests the quarterly drop in the subsector was due to a setback

B.   Residential and non-residential building construction

■ Aggregate value   —— Annual change (right scale)

C.   Construction of highways, railways, public utility projects and other civil engineering works

■ Aggregate vale   —— Annual change (right scale)

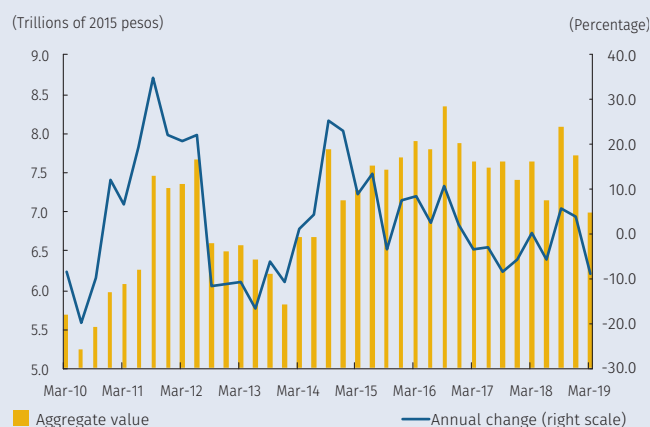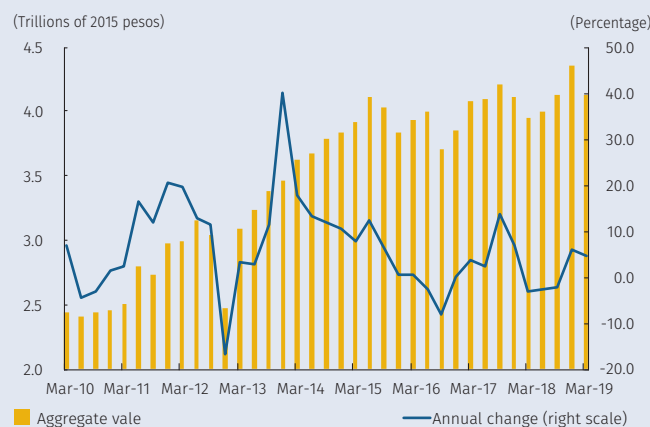Source: DANE; calculations by *Banco de la República.*

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1   Including homes (houses and apartments) and non-residential buildings (for offices, commerce, warehouses, education, hotels, hospitals, public administration and other uses).

Graph B2.2
Structure Completions, According to the Building Census

(Thousands of square meters)   (Percentage)

Residential   Non-residential   Annual change (right scale)

Source: DANE; calculations by *Banco de la República*.

Graph B2.3
Home Sales (12 month aggregate) and Supply (12-month moving average)

(Units)

Sales   Average supply   Supply/sales (right scale)
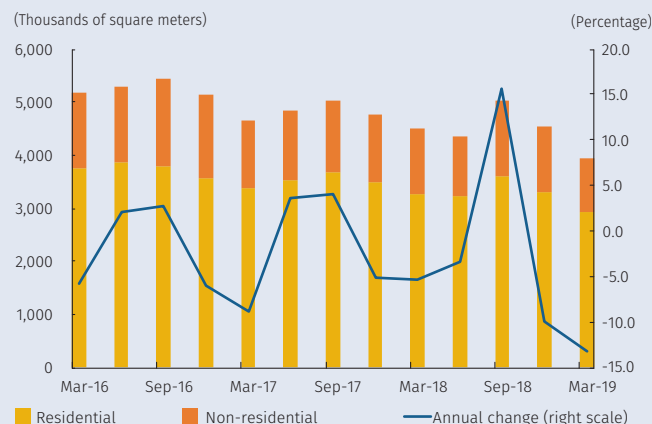
Source: Camacol, calculations by *Banco de la República*.

in the line of construction pertaining to railways, airstrips and mass transit systems. It was down 20% annually at the start of the year in its original series.

On the demand side, this performance also was reflected in less investment in construction. During the first quarter, investment in housing registered an annual setback of 7.9% and a quarterly decline of 8.3%. On the other hand, although investment in other structures rose 1.7% annually, it dropped by 5.3% between quarters.

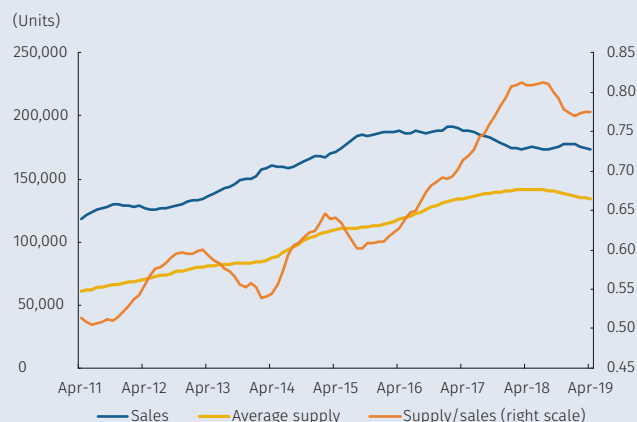## 1.   Prospects for GDP in the Construction Sector during 2019

There is a great deal of uncertainty about the performance of construction in the coming quarters, mainly because its recent behavior shows no clear trend. However, the forecast developed by the technical staff at *Banco de la República* anticipates part the shock observed in construction at the beginning of the year will be reversed during the remainder of 2019. The reason is that, despite indicators of weaknesses in the sector, other data allow us to expect some recovery.

The first group of indicators includes housing sales and supply.[2] In the twelve months up to April, these indicators declined by 0.8% and 5.0% annually, in that order (Chart B2.3). Judging by low-income housing (LIH) and non-LIH, the poor sales performance and the drop in supply occurred primarily in this last segment.

Moreover, the performance of building permits, which reflected lagging momentum that seems to have some link to the sluggishness in GDP for buildings, also showed signs of

weakness in recent months. Specifically, the area licensed for home construction[3] fell 1.8% annually between January and May of this year, although it did show a slight trend towards recovery in the margin (Chart B2.4). The main annual decline in this segment was in non-low income housing. Licenses for non-residential construction dropped 9.6% annually during that same period, with the area licensed for warehouses registering the largest reduction (-50.1%).

However, in contrast to these indicators, other figures for construction denote more favorable performance. One example is employment in the construction sector. Its seasonally-adjusted series corrected for calendar effects has been relatively stable (as per the trend) since the end of 2018. When construction employment is broken down into civil and related works, one sees this momentum has been

Graph B2.4
Area Approved for Housing and Annual Accumulated Change in 12 Months

(Thousands of square meters)   (Percentage)

Non LIH
LIH
Annual accumulated change in 12 months: LIH (right scale)
Annual accumulated change in 12 months: non-LIH (right scale)

Source: DANE, calculations by *Banco de la República*.

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2   The supply at any point in time is equal to the available units of the previous period, plus the balance between the new units placed on the market and the units sold during that lapse of time.

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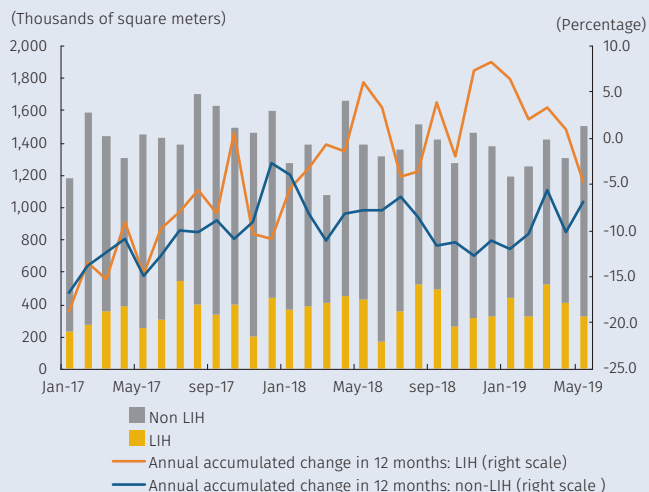
3   As reported for 302 municipalities in the country's 32 departments.

connected mainly to construction employment without civil works, a proxy for that meant for building construction (Chart B2.5).
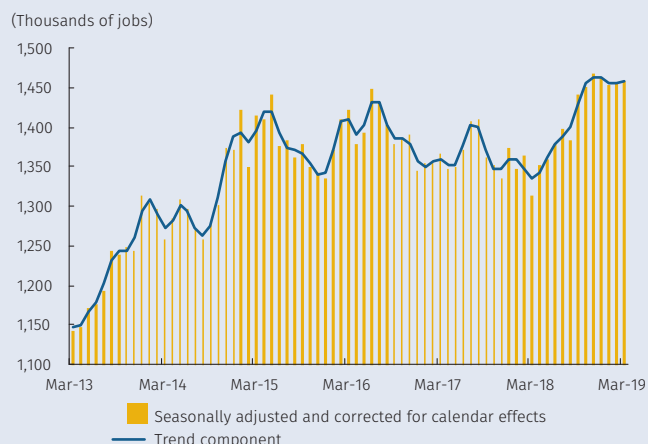
On the other hand, the Fedesarrollo Consumer Confidence Index (ICC in Spanish) shows that consumer intention to purchase a home has been somewhat stable since 2017. Furthermore, the recent past has seen no deterioration in this balance, in keeping with the results for housing construction (Chart B2.6). Therefore, we can expect some momentum in housing demand.

According to *Banco de la República*'s latest *Report on the Credit Situation in Colombia,* there was an increase in the proportion of banks that lowered their home loan requirements in the last three months, and none said they had increased them. This trend is expected to continue for the next three months and would be accompanied by historically low real interest rates on mortgages, all of which could stimulate the home building sector.
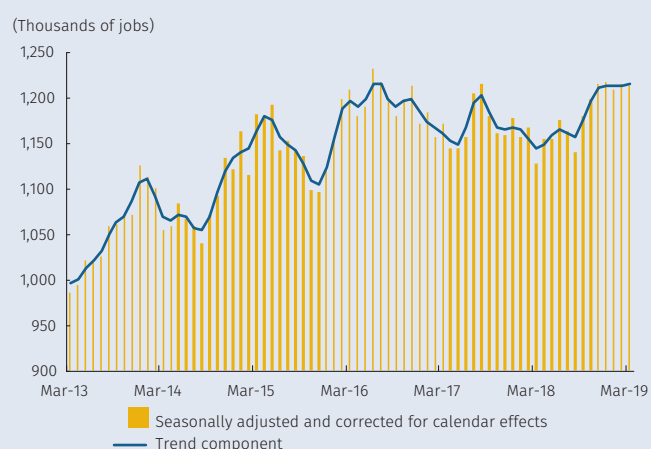
Finally, the coming quarters are expected to see home construction benefit from a number of initiatives undertaken by the national government to stimulate demand. These consist of granting new resources to boost the purchase of low-income housing (LIH) and raising the mortgage loan limit from 70% to 90% of the value of non-LIH. Coupled with historically low real growth in prices for new and existing homes (Chart B2.7), together with somewhat less inventory turnover up to June 2019,[4] this suggests current weakness but also signals the possibility of a recovery in the coming quarters. The construction of civil works would continue to recover (following the quarterly drop in the first three months of the year), backed by regional and local budget performance and by the anticipated revival in fourth-generation highway projects.

Graph B2.5
Employment in Construction: Total and Excluding Civil Works
(National total; moving quarter)

A.   Total construction

(Thousands of jobs)

Seasonally adjusted and corrected for calendar effects
Trend component

B.   Construction without civil Works

(Thousands of jobs)

Seasonally adjusted and corrected for calendar effects
Trend component

Source: DANE, calculations by *Banco de la República*.

Graph B2.6
Balance of the Question Posed by the ICC and Fedesarrollo: Do you think this is a good time to purchase a home?

(Thousands of jobs)
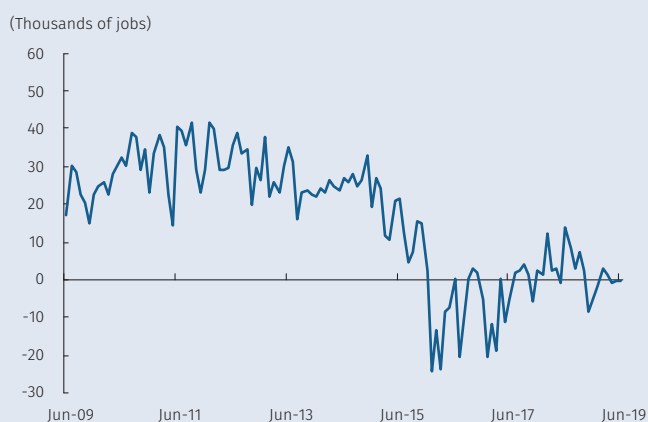
Source: Fedesarrollo.

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4   This is calculated as the ratio of housing units offered monthly to the quarterly average of new homes sold. Source: *La Galería Inmobiliaria*.

Graph B2.7
New and Existing Home Price Indexes
(Annual percentage change)

(Percentage)
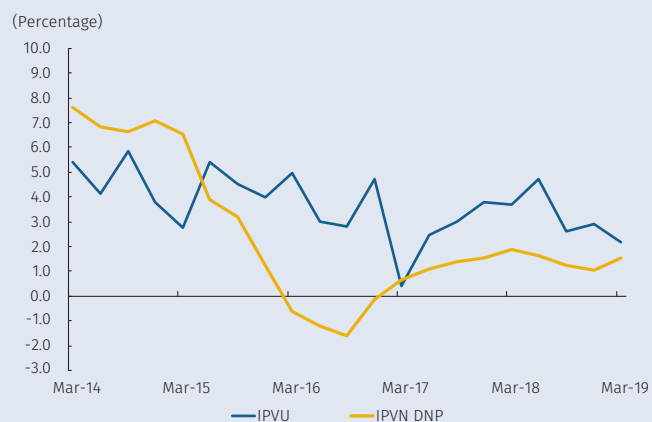
Source: DNP and *Banco de la República*; calculations by *Banco de la República.*