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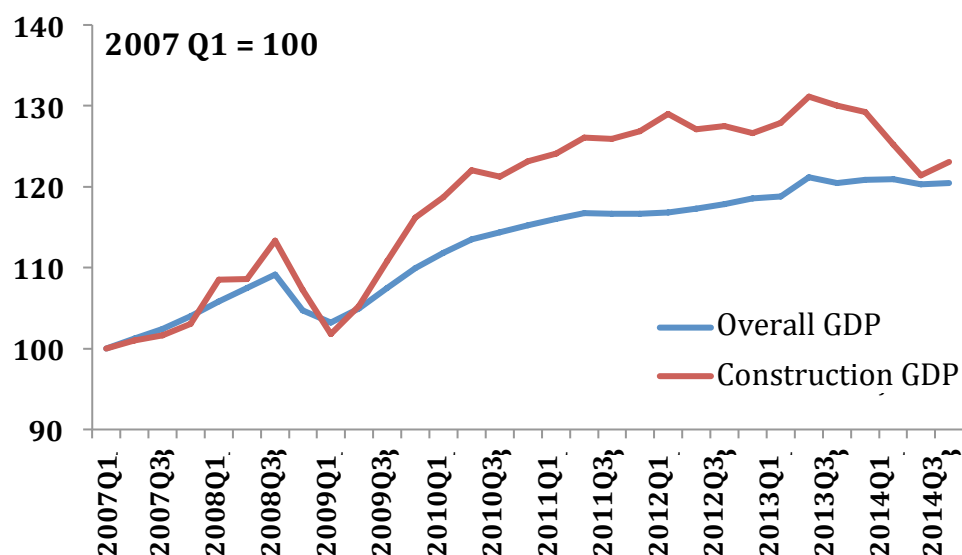
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**CYCLE AND TENDENCY IN CIVIL CONSTRUCTION**

Of all the economic expressions that are most relevant to any sector analysis, "procyclical" and "countercyclical" are terms that are worth highlighting. Translating them straight, a segment of the economy is said to be procyclical when the fluctuations in its level of operations follow the movements of the economy as a whole and, in many cases, in a more intense manner. A countercyclical segment is one doing well when the economy as a whole does badly and the other way around.

As it is usual with segments making up a nation's primary industry, civil construction is typically procyclical. It does really well when the economy does well, and really bad when the economy does badly.

**CHART 1: Total GDP and civil construction GDP  
2007-2014**



Source: IBGE (Brazilian Institute of Geography and Statistics)

From a perspective view, the recent years are a clear example of this sector behavior. The growth rates of construction reached a double-digit share in 2010, and then quickly slowed down as from 2013, a movement similar to what was observed in the global level of operations, only it was much more intense (Chart 1).

The reasons for so wide a cycle lie in the stimulus policies adopted from the beginning of the international financial crisis, in 2008. Civil construction, particularly in its residential construction segment, was strongly stimulated and responded in a very positive manner.

More than that: the Brazilian Federal Government put out an ambitious housing program, called *Minha Casa, Minha Vida* ("MCMV", or "My House, My Life"), which aims to significantly reduce housing shortage in the Country, estimated to be over 5 million houses prior to this initiative.

In spite of any criticism, the MCMV has contributed to maintaining the levels of operations and employment in civil construction and providing millions of families with access to housing. In parallel, the housing credit has also boosted demand in the so-called "market segment", that is, families with income above five minimum wages as their monthly income - this is an important indicator. For decades, housing credit in Brazil had been motionless, at a level of 2-3% of the GDP. In more developed countries, this indicator reaches 60%. On account of the stimulus measures and particularly the actions taken by the official banks, led by Caixa, we have reached a creditable level of 5.5% of the housing credit GDP. Quite an achievement for our historical standards, but yet a shame in the global scenario.

Thanks to all that, from 2008 to 2013, Brazilian civil construction generated about 1.5 million new jobs. In that same period, Europe and the USA saw a material reduction in the number of employees in this industry and in both regions the level of employment is currently still lower than it was in 2007.

This was the expansion stage of the cycle, some sort of "Golden Age" for housing construction. But, since late 2013, various dark clouds have been forming in the horizon of this industry.

On the one hand, the infrastructure segment, a strategic share of gross capital formation, could not keep up with housing construction. In parallel, the commercial real estate industry started having continuous drops in prices. This situation worsened during 2014, with a more intense reduction in the pace of operations of the economy as a whole, in one of the most economically atypical years in our recent history. The World Cup and the elections were decisive for this uncommon trait.

In the infrastructure segment, the pace of construction works became even slower as tax revenues fell and the schedules were extended. In the housing segment, there was a material drop in demand: partially due to the wearing out of the debt capacity of families; partially because of the growing political uncertainty.

As a result, in the first two years [sic] of 2015, the level of employment in civil construction fell, going against the seasonal tendency to growth, which is typical of the first months of a year. More than that, it was a tough fall. Last February, construction employed, in all its segments, 3.3 million workers, representing a reduction of over 278 thousand jobs, when compared with February 2014. With these figures, the level of employment in construction came back to the levels seen in 2011, an year when this industry was still growing intensely.

We have described the cycle and explained the current slowdown, yet a question is unanswered: what's the trend for the future?

Judging by the currently ongoing tax adjustment process and a consequent need to cut expenses, and taking into account a material reduction in new real estate developments, no expectations for a short-term recovery of the industry can be seen in the horizon. The projections assessed by FGV Projetos for ABRAMAT - Brazilian Association of the Construction Materials Industry suggest a 6% recession in the sector's level of operations in 2015.

Whether civil construction will return to growth or not is strongly conditioned upon the performance of the infrastructure segment. Even though it accounts for only 16% of the global construction operations, it is in infrastructure that the largest gaps can be found in terms of needs for investments. Besides, infrastructure adequacy and expansion are vital to sustain the growth of the economic activity as a whole, thus ensuring cost reduction to companies and improving our competitiveness conditions.

There is no doubt that programs such as the MCMV are far from wearing out, given the huge housing liability still existing in our country. But, as seen, much has already been done in this regard, while the infrastructure deficiencies have been growing.

For these improvements to be made, it will be key that, in the next few months, the Federal Government clearly indicates its willingness to expand the concession programs, restoring the role of regulatory agencies and offering political and legal stability that is compatible with higher foreign capital inflows. Only then may some of the key infrastructure works, which are too obvious to mention, be put into practice - and only then will it be possible to sustainably retrieve the growth tendency for construction and the economy as a whole.