

Economic environment

Economic developments

With GDP expansion of 5% in 2007, the world economy displayed strong growth for the fifth consecutive year. A positive trend in many industrialized countries and a lasting boom in most emerging markets provided a broad basis for the upswing. However, growth weakened in the United States due to the sub-prime crisis and its effects on the real-estate market. This has increased the risk that the dynamic growth trend will be interrupted.

In the euro zone, growth of 2.6% was slightly weaker than in the prior year. However, unemployment figures continued falling as a result of the increased economic activity, and most member states made progress with budget consolidation. The further appreciation of the euro against the US dollar that started in autumn might have a dampening effect on growth, but this will not be felt until some time during the year 2008.

- In Germany, total economic output increased by 2.5%. This growth was due in equal parts to increases in exports and in investment, while private consumption stagnated as a result of the increases in taxes and other wage deductions.
- Economic growth in France was below average, the lower competitiveness of French industry compared with Germany was reflected by falling exports.
- Among the major economies of the European Union, the United Kingdom was in the lead with growth of a good 3%, aided by dynamic private consumption and lively business investment.
- Of the smaller economies of Western Europe, in addition to Ireland, Spain and once again Finland, Sweden and Norway posted particularly high growth rates of between 3.4% and over 4%. Developments in the Scandinavian countries also featured high government budget surpluses and further falls in unemployment.
- The economic catching-up process continued unabated in most of the new EU member states in Eastern Europe. In Poland, for example, economic growth accelerated to 6.5%, driven by strong consumption and high levels of investment in plant and buildings. The rate of growth in Hungary, however, halved to just below 2% as a result of the efforts made to balance the budget.

Gross domestic product – growth by region

%	2007	2006
Germany	2.5	2.7
Europe	2.6	2.7
United States	2.2	3.4
Australia	4.3	3.1

In Australia, economic expansion accelerated again following rather moderate expansion in the previous year. Growth of 4.3% was primarily driven by private and public-sector consumption as well as lively investment. The unemployment rate was at its lowest level for the past thirty years, and the economic situation led to comfortable public-sector surpluses.

The dynamism of economic growth in the United States subsided in 2007; growth over the full year amounted to 2.2%. Falling house prices and rapidly rising energy prices dampened private consumption. The US economy was stabilized by an initially resilient labor market and strong export growth. Canada was impacted by the weaker economic development of its most important trading partner, but achieved GDP growth of 2.6%, which was slightly higher than in the US.

German construction industry

For the second time in succession, the German construction industry delivered a positive contribution to the country's economic growth. Construction investment increased by about 2% in 2007. A sharp decrease in residential construction was offset by the dynamic development of commercial construction.

The economic situation was significantly impacted by special items. For example, the extremely mild winter of 2006/2007 had a positive effect, whereas residential building was negatively affected by the abrupt end of the temporary boom caused by the expiry of tax breaks for new home owners and the increase in value added tax at the beginning of 2007.

The development of commercial construction was far better with real growth of 4.5%. This growth was based on the high level of capacity utilization in the manufacturing sector, which resulted in expansionary investment. The construction industry benefited in particular from orders for production and workshop buildings as well as retail, wholesale and warehouse buildings; demand for new office buildings was less lively, however, due to the existing volume of empty properties.

Investment in public-sector construction rose sharply. Municipalities in particular benefited from rising tax revenues – total trade tax revenue reached the record level of nearly €40 billion. Because the municipalities are responsible for 60% of investment in German public-sector construction, the recovery of their finances significantly boosted demand.

International construction industry

The development of the construction industry in Europe outside Germany was generally positive.

- In France, a steady good level of public-sector investment is ensuring a stable development of demand for civil engineering.
- The United Kingdom is already investing substantial sums in its transport infrastructure ahead of the Olympic Games in summer 2012, leading to high growth rates for civil engineering. Building construction is profiting from the demand for new office space in the services sector, and also from lively demand in the education and health sectors.
- In the Scandinavian countries, the construction industry is on a stable growth path. Norway and Sweden are making use of the positive condition of their state finances and are investing in the expansion of road and rail networks and ports, with particularly positive effects on demand for civil engineering.
- In the new EU member states, investment grants from the EU's structural fund mean that the modernization of public-sector infrastructures is making rapid progress. This is leading to a sustained strong upswing for the construction industry. Poland for example, has access to grants of €28 billion between 2007 and 2013 for the expansion and renewal of its road, waterway and disposal networks. And similarly high grants will be available in Hungary in the coming years. In the year under review, however, that country's construction industry suffered from the poor economic situation and a marked degree of investment restraint on the part of the public sector.

In Australia, double-digit growth rates mean that the strong demand for civil engineering can be expected to continue. The high demand for raw materials from Asia requires continual investment in mining, ports, roads and railways. Additional growth drivers are the energy and telecommunications sectors. However, the prolonged boom in residential building seems to have come to an end.

In Canada, there have once again been major investments in exploration for raw materials and energy production. Substantial funds have also flowed into the expansion of transport infrastructures.

In the Arabian Gulf region, all areas of the construction industry are profiting from the high liquidity and willingness to invest of the oil-producing states. This is most extreme in the United Arab Emirates, where, according to industry estimates, two thirds of all construction activities in the Gulf are taking place. Strong population growth and the development of tourist and services locations require high investment in transport, energy and telecommunications networks and in residential construction.

Services

Worldwide, investment in plant and equipment increased sharply in 2007, which also boosted demand for industrial services. In Europe, growth was strongest in the energy and chemical sectors. In Norway and the United Kingdom, there is a boom in oil and gas exploration and extraction in the North Sea. In Eastern Europe, a large number of industrial plants still have to be replaced. In the United States, demand from industry is strong, particularly in the energy and export sectors. Australian industry is profiting from strong demand for raw materials from global markets and from its strong domestic economy. Restructuring processes in industry worldwide are being driven by the trend for companies to concentrate on their core competencies. This improves opportunities for external service providers and in many regions is leading to a high degree of outsourcing to the benefit of companies specialized in industrial services.

In the energy sector, the debate about climate protection and supply security is leading to high levels of investment in the modernization or substitution of existing power plants. Preferences for nuclear power, fossil fuels or regenerative energy sources vary from country to country. But nonetheless, substantial funds are being made available everywhere to ensure stable long-term growth for providers of services for power plants.

The German market for facility management is becoming more professional, driven by the rising number of foreign real-estate investors. As the ownership and management of buildings are increasingly becoming separated, the trend towards procuring external services will continue. Large providers will profit in particular by being able to offer full-service packages.