

Home renovation and modernization can be the first to wake from the nightmare caused by the coronavirus

(GKI and Masterplast survey results for March of 2020)

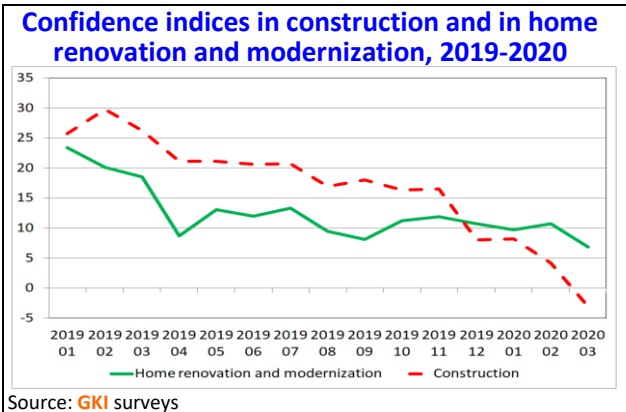
The coronavirus epidemic is destroying the operating environment of the construction industry. According to a joint survey by GKI and Masterplast, after the crisis is over, the prospects for home renovation and modernization will clearly be more favourable than home construction. Due to expected residential caution, the need for smaller renovations may increase rather than buying a new home that is a much larger investment.

GKI has been conducting monthly surveys to assess plans, intentions and prospects of building companies. This survey is carried out with the support of Masterplast Nyrt. from January of 2020. Respondents of these surveys included 200-250 firms from which 40-50 worked on the field of home renovation and modernization.

With the escalation of the epidemic caused by the coronavirus and the announcement of the emergency in Hungary, the construction industry, including the renovation and modernization of the dwelling, got into a very unfavourable economic environment. However, the first quarter could not have gone wrong, and there was some sort of stockpiling and buying of building materials, as on the one hand most contractors want to work under all circumstances, and on the other hand, a significant part of those forced to stay home during the epidemic think of a do-it-yourself renovation. While government and central bank forecasts are still counting on the potential for economic growth this year, the Finance Minister's recent announcements would see growth just above zero, which in practice is likely to be a downturn. According to GKI, the extent of the decline should rather be questionable in 2020. If the epidemic-related measures are lifted by the end of the second half of the year and the economy returns to normal in the third quarter, the current crisis could be overcome with an economic downturn of around 3%. This would result in a 1% decrease in household consumption and an 8% decrease in investments on an annual basis. In the event of a prolonged outbreak, a larger decline of up to 7% may occur (with 4% reduction in consumption and 10% reduction in investment).

The problems of home renovation and modernization, that is, the factors limiting the expansion of production, hardly differ from those

experienced in the construction industry as a whole. According to a March survey, nearly 60% of firms suffer from labour shortages, and the restrictive effects of the outbreak may be reduced. One in three companies considers the high burden of social security tax and about one in four suffers unfair competition ("only" one in five in the construction industry as a whole). However, only 8% of renovation and modernization companies consider late payment of purchasers to be a serious concern, whereas this affects one in five companies in the construction industry as a whole.



In the first half of March 22% of home improvement and modernization companies planned to expand their workforce, but no layoffs were expected - a clear indication of the significant shortage of labour. Of course, later these expectations can change because of the epidemic.

According to the GKI survey, the construction confidence index, i.e. the economic outlook for the sector, has been essentially deteriorating since early 2019. The expectations of companies in the field of home renovation and modernization also showed a smaller decline, but stagnation has been the dominant trend in the last year. Based on this, it is likely that if the construction market recovers from its current "hibernation" state, the renovation and modernization market could be significantly booming. Growth in this segment may be much more favourable than in housing construction, especially since the abolition of the reduced VAT rate has thoroughly "cut back" this area.