

THE BUILDING INDUSTRY- A FLOURISHING SECTOR OF THE NATIONAL ECONOMY

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ABSTRACT: *The building industry has been one of the most dynamic fields of the Romanian economy over the last years. The increase in the number of builders, the penetration on the Romanian market of a large number of branches of the multinational companies, the major investments in large projects, they all give the coordinates of an intensely competitive construction market. In this paper we wanted to point out the fact that the building industry is a significant branch of the national economy, as it plays an important role in the development and modernization of the Romanian society. We also wanted to provide an overview of the building industry evolution on the basis of the economic financial indicators in this sector.*

KEY WORDS: *building industry, builders, construction GDP, economic indicators, GDP*

1. INTRODUCTION

The building industry represents an important stimulus for the economic and social development and modernization process, and for this reason, we thought that a research on the building industry in the Romanian economy would be necessary and challenging, considering the higher competitiveness generated by Romania's integration into the EU. Deciding upon this research topic was due to the belief that the building activity offers a vast area of analysis in a period dominated by the builders' interest in getting on the right track in relation to the complex and dynamic environment in which they carry out their activity.

The construction branch is a domain that is always subject to perfection, both in point of using some materials and technologies in the execution process, as well as of improving the assemblage-construction standards, satisfying in this way the needs of the users. Building constructions and plants up to quality standards in accordance with the investors' needs can't be done but by the appropriate management of all specific

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activities in the field. The managerial decisions are responsible for the performances of the builders and therefore our paper gives a special attention to this aspect.

The chosen methodology is the quantitative research at the level of builders. The main advantage of this method is the adjustment to the existent resources and identified external limitations. The disadvantages relate to the loss of continuity and the loss of a relevance level given by the quantitative research.

2. THE POSITION OF THE BUILDING INDUSTRY IN THE NATIONAL ECONOMY

The building industry can be considered one of the most dynamic sectors of the Romanian economy between 2003 and 2007, maybe the most dynamic- because of the high level of privatization (more than 99.5% private business corporations in 2003).

It is also one of the main engines that give a stimulus to the other sectors of activity, both in point of stimulating the building materials production and other industrial, commercial etc. activities, but also in point of new goals, mechanical engineering, and last but not least residential constructions, therefore influencing directly the other sectors of activity.

In the following table we are presenting the evolution of the gross domestic product - GDP - for 2003-2007 (and the marginal years 2002/2008) as well as the contribution of the building industry to it.

Table 1. The evolution of the GDP between 2003 and 2007

Indicator	2002	2003	2004	2005	2006	2007	2008
TOTAL GDP, of which: (billions of lei)	151,4	189,1	238,7	287,2	342,4	404,7	503,9
Construction GDP(billions lei)	8,8	11,3	14,6	18,1	25,3	36,8	52,9
Constructions contribution to the total GDP (%)	5,8	6,0	6,1	6,3	7,4	9,1	10,5
Annual growth % of Construction GDP	-	29,2	28,3	24,3	40,0	45,3	43,7

Source: INS

The evolution of the total GDP compared to the construction GDP, points out the following:

- the growth of total GDP in 2007 compared to 2003 was 2.14 times *smaller* than the growth of the construction GDP, which was 3.25, thus the contribution of the construction GDP to the total GDP increased from 6% in 2003 to 9.1% in 2007.
- the growth of total GDP, in 2008 compared to 2007, was 24.5%, while the growth of the construction GDP was 43.75%, the contribution of the construction GDP to the total GDP reaching 10.5%.

Even if, at first sight, the contribution of the building industry to the GDP doesn't seem very significant, the "motive" and qualitative impacts of the building

industry's accomplishments in comparison with the other sectors of activity strengthen its position in the national economy.

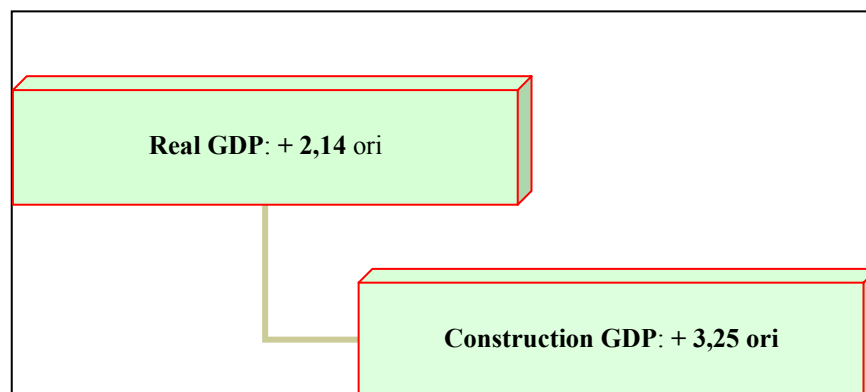


Figure 1. The position of the building industry in the national economy

In a study conducted by CNP it is stated: “the effect of intensifying the building activity is reflected first of all in the industry, in 4 industrial subgroups with a large contribution to the intermediate consumption, that is, *other extractive activities, the manufacture of building materials, metallic engineering and the processing of wood and wood products*” (CNP source- THE BUILDING ACTIVITY- a prop for the growth of the industrial production - May 2006).

According to the same study *the most important effect on the industrial production was the intensification of the infrastructure works.*

3. THE EVOLUTION OF THE NUMBER OF BUILDERS IN THE BUILDING INDUSTRY, TURNOVER AND NUMBER OF EMPLOYEES, BETWEEN 2003 AND 2007

A synthesis of the mentioned indicators is given below, in the graphic that presents the increases in the evolution indicators compared to 2003 (figure 2):

The total increases for the three categories of analyzed indicators, recorded in 2007 compared to 2003 are:

- the increase in turnover 3.08 times
- the increase in number of builders 2.27 times
- the increase in the average number of employees 1.42 times

It can be observed that the increase in turnover has exceeded by far the increase in the number of builders and the average number of employees, and this fact in accordance with the carried analysis of these categories of indicators leads to some obvious conclusions:

- the number of builders has increased especially because of the increase in the number of “small” builders- with a small turnover and a small average number of employees;

- the average number of employees and turnover have increased for an almost the same number of large companies (which have their own “problems” because of their size), but the “burden” of the increase in turnover was placed on the small and medium sized enterprises’ shoulders, both by increasing their number and their average personnel number;
- the leap that the turnover has made, as the latter is more than two times bigger than the personnel number, shows an increase in the efficiency of the building activity through the increase in the average turnover per employee, as an effect of the rise in productivity.

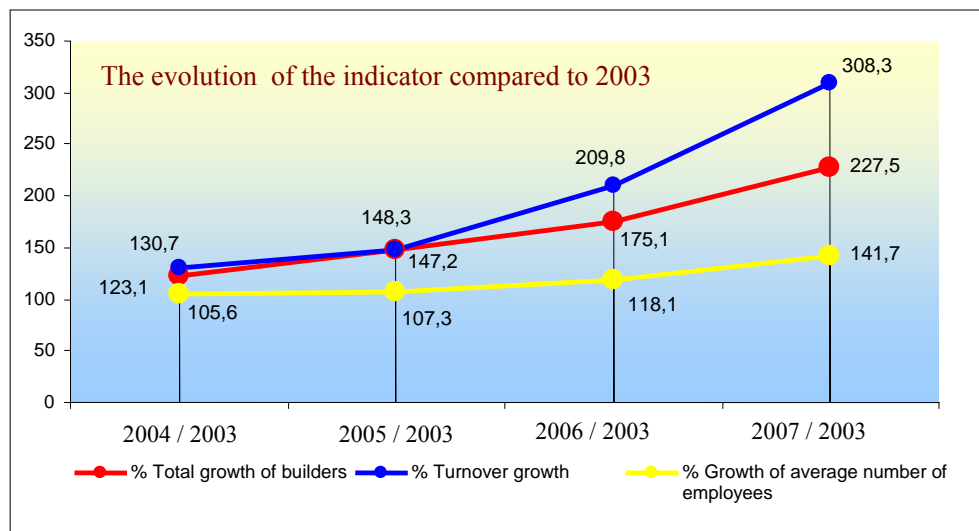


Figure 2. The evolution of the analyzed indicators (2003-2007)

4. THE CONCENTRATION DEGREE OF BUILDERS IN THE BUILDING INDUSTRY

On the basis of the analyzed period (2003-2007), the concentration degree of the builders in the building industry shows a fragmented, emerging market. Below, table 2 presents the concentration degree of builders in the building industry.

As a trend, we can observe a slight increase of the concentration degree both in turnover as well as the average number of employees in the building industry between 2003 and 2005:

- The first 5/20 companies increased their degree of concentration in relation to their turnover from 6.4% in 2003 to 8.6% in 2005 and from 14.8% to 15.2% respectively.
- The same trend can be observed if we apply this indicator to the average number of employees for the first 5 companies. As it concerns the first 20 companies, we can see a flattening of the indicator at around 13%.
- In the second part of the analyzed period 2005-2007, the concentration degree marked an obvious drop:

- The aggregate market share of the first 5, and 20 companies respectively, in the building industry, dropped from 8.6% in 2003 to 4.8% in 2007 and from 15.2% to 11.9% respectively.
- This shows a strong development both of the small companies in point of their number (more than 16.200 companies with a number of employees between 1 and 49), and especially of the turnover- a consistent growth with the main relevant for analysis macroeconomic indicators: the increase in the construction GDP and its contribution to the total GDP.

Table 2. The concentration degree of builders in the building industry

Year	Number of builders	Average number of employees	Turnover mil. lei	Accumulated in % of the total average number of employees	Accumulated in % of the total turnover
				First 5 / First 20	First 5 / First 20
2003	20.629	356.859	21.469.555	7,9 / 13,6	6,4 / 14,8
2004	25.389	376.938	28.066.631	8,1 / 13,1	5,8 / 13,5
2005	30.372	383.094	31.846.741	8,4 / 13,1	8,6 / 15,2
2006	36.115	421.579	45.053.990	7,9 / 12,2	6,2 / 13,3
2007	46.925	505.773	66.185.254	6,3 / 10,6	4,8 / 11,9

Source: INS

One of the possible factors of influence on the different evolution of the concentration degree, applied to the turnover for the two sub periods: 2003-2005, 2005-2007, would be the political situation at the end of 2004, on the occasion of presidential and parliamentary elections, because depending on the managers' political "affiliation", the building companies modified (increased/decreased) "their market share", influencing the concentration degree.

The ascendant development of the building industry between 2003 and 2007 continued also in the first part of 2008, but afterwards the building activity was forced to slow down because of the economic crisis which affected the national economy and implicitly the building industry.

5. CONCLUSIONS AND THE HORIZON OF THE BUILDING INDUSTRY

Between 2007 and 2008, the Romanian building industry was the most dynamic sector at European level.

2009 is a very hostile year for the Romanian constructions. The existence of financial difficulties, the increase in inflation, and the reduction of the economic growth, compared to previous years, are a few of the problems that the building industry is confronted with this year.

Besides the administrative measures in banking that the National Bank of Romania has already started to adopt in order to free credits, the main key factor to be used for exceeding the present difficulties is the launch of some important public or private-public partnership orders for infrastructure works. This domain is not limited

only to roads and highways (it is well known how deficient this field is in Romania and how necessary an improvement would be), but it also includes rural infrastructure which needs massive works.

The Romanian and foreign builders, as well as their associations to form consortiums for major works constitute a direction of primary action for the future. The problem of the labour force will be solved, on one hand, by the return of Romanian workers from abroad as well as by the emergence of the new generation of workers. Combining the local experience of the Romanian builders with the experience in the new technologies of the European companies and the state's participation, directly or through a public-private partnership, in the infrastructure objectives, represents the chance for progress for the Romanian constructions.

The depreciation of the Romanian currency in 2009 could amplify the difficulties of the building companies because they have modernized by taking out leases on the new types of equipments. In addition to this, we must take into account the increase in prices for the building materials, although the decrease in the number of contracts and the drop in demand, respectively, should trigger a drop in the price for these materials. The drop in the oil price, internationally, is an advantage to hold up prices for the building materials produced from internal sources.

In conclusion we appreciate that even though the conditions of the building activity are more difficult, this branch will achieve some progress also in 2009 compared to 2008, although to a lesser extent than the 30% that we have been used to. We consider that 2009 can bring a 1-2% increase in the value of the building activity, on the basis of the 10 million of Euros provided for investments, by the budget. In case the orders from public or private-public funds will increase to the level of necessities, this value will be substantially exceeded, but with the help of the European financial source.

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