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The Construction Industry and the Economy

Importance of size

The construction industry is important partly because its output is large and therefore that it is a significant part of the economy. The gross output of the construction industry is the value of all the buildings and works produced by the industry in a given period of time, normally a year. In the world as a whole it is probably about 10 per cent of Gross National Product (GNP), that is 10 per cent of all the goods and services produced, or of the order of US$3,000 billion in 1997. There is a considerable difference between various types of economy and geographical locations. Davis Langdon Consultancy (DLC, 1997) estimated that in 1990 the percentage shares were: Western Europe 30 per cent; Asia 28 per cent; North America 25 per cent; Eastern Europe 7 per cent; South America 5 per cent and Africa, Middle East and Oceania just under 2 per cent each. These estimates are similar in general conclusions to those by Drewer (1999) who estimated that developed market economies accounted for 78 per cent of global construction output in 1990. In Europe, gross construction output was around 10 per cent of GDP in 1997, marginally less for the EU and slightly more for countries of the former Soviet Union (DL&E, 2000). Some countries in Asia have a very high level of construction output, for example China where construction output is well over 20 per cent of GNP. By contrast, in the USA construction accounts for only about 9 per cent of GNP and in the UK too it is low. (DL&E, 2000; DLSI, 1997)

The net output of construction is the same as value added, that is, it is the value of the contribution of the construction industry itself to the production of building and works and excludes all the
inputs of other industries, such as building materials and plant and equipment. The relationship between gross output and net output depends on the technologies used and the relative prices of inputs. If, for example, technology is fairly simple and the cost of labour is low, net output is likely to be low compared to gross output. This is the case in China. The value of net output is normally about half gross output in developed countries and less than half in developing countries. Low (1991) calculated that over the fifteen year period from 1970 to 1984, North America had the highest regional output followed by Western Europe and East Asia. ‘The massive market of the USA in North America, the congregation of advanced industrialised countries in Western Europe and the significant presence of Japan in East Asia appear to be plausible reasons that account for their respective positions as the top three in the league table.’ (Low, 1991, p. 66). Whatever measure is used, an industry which produces such a large component of GNP is of great significance for the economy.

**Investment industry**

An even more important reason for the construction industry’s importance in the economy is that it produces investment goods. This means that its products are wanted, not for their own sake, but on account of the goods and services which they can create or help to create. Investment is vital for the wellbeing of any economy and, although it may be postponed for a while, if it is not undertaken, the economy will deteriorate. In most countries construction provides about half the gross domestic fixed capital formation, that is, half the production in the economy which is invested. The remainder of investment is plant and machinery, for example in factories, and vehicles and other transport goods. In some countries certain information technology products are also regarded as investment.

It is clear that, say, factory building is an investment because it is used to create other commodities. In a different way it is also true of school building where the building is not required for its own sake, but as a place in which to produce education. Housing can be regarded as the place where accommodation is produced. This stretches the argument rather far, however, and, although housing has other attributes of an investment good, it may be regarded as directly consumed.