

Press Release

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Bergström: Stable prices, wages and growth important for construction sector

Deputy Governor of the Riksbank Villy Bergström gave a speech under the heading "Monetary policy and construction in Sweden" at PEAB's capital markets day on Tuesday. The speech also touched on economic developments.

"Despite the relatively weak growth in productivity in the construction sector, construction workers' wages have increased more than those of industrial workers in recent years. Another problem is that the costs of construction materials, which constitute approximately one-third of total construction costs, have shown price increases over and above other industrial products for some time now, with price rises even during periods of low demand. One important explanation for this is the fact that the construction trade is concentrated to a small number of large companies. In some markets, for instance, those for cement, reinforcement steel and plasterboard, one company accounts for more than 50 per cent of total sales," said Bergström

"From a financial stability perspective, developments on the property market are important because the banks, who play a central role in the payment system, are exposed to the property sector in two ways - through lending with property as collateral and also through lending directly to property management companies and construction companies.

"The reports from the large Swedish banking groups show that approximately 20 per cent of lending to the general public consists of lending to property management companies and the construction industry. Just over one half of lending to the general public comes from housing finance institutes and is with property as collateral. This fact, plus the fact that banking crises around the world have often been preceded by rapidly rising property prices in combination with an extreme expansion in credit, give reason for special analysis of the property sector," said Bergström

"I would like to point out the difference between the earlier period of detailed regulations when housing construction was an essential element of the welfare

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policy and was used as a regulator of the business climate and the period following the shift in monetary policy towards a clear inflation target of 2 per cent. The inflation target is well known and is now considered a given starting point by economic analysts and others. This is positive in itself. A high or fluctuating inflation rate increases uncertainty on the markets," continued Bergström.

"Allow me to finish by saying the following. It is of course possible to influence construction in Sweden through both fiscal policy measures by the government and parliament and monetary policy measures by the Riksbank. The best long-term effect will probably come from stability and predictability with regard to prices, wages and growth. This is what we at the Riksbank aim to promote through our monetary policy."