

Belgian construction sector faces a tougher year

The Belgian construction sector grew by 1.9% last year, slightly faster than the economy as a whole. And that's despite a sharp fall in demand and a record number of bankruptcies. 2024 promises to be tougher, not least because prices of energy-intensive building materials remain high



Belgium's Minister of Justice, Paul Van Tigchelt, visiting a new prison construction site in Antwerp

Belgian construction sector continues to grow strongly despite record bankruptcies

Despite strong headwinds from higher interest rates and higher costs, Belgium's construction sector grew by an average of 1.9% in 2023, faster than the wider economy, which grew by 1.5%. That's a pretty impressive figure given the record number of bankruptcies we saw last year. That was down to falling demand and the phasing out of Covid-support measures which kept companies alive during the pandemic. 22% of those bankruptcies were firms less than three years old with fewer than four employees.

Still, the sector showed robust growth. Construction projects have a long lead time and the sector benefited from pent-up demand after the pandemic. High energy prices also prompted many

people to make their homes more energy-efficient. Add to that post-pandemic recovery measures and order books were well filled at the start of 2023.

Businesses and governments continued to invest strongly last year and this trend is expected to continue. And expect a big increase in public infrastructure projects, such as roads and bridges. Belgium has local elections this year, and that's when municipal investment is generally stronger.

The outlook for the new-build market is becoming bleaker

Several indicators point to a cooling in 2024, especially in the new construction and renovation market. Due to the rise in interest rates and more expensive prices of building materials, the number of building permits granted fell by 13% in the first ten months of 2023 compared with the same period the previous year. Manufacturers of building materials, who are often the first in the chain to be affected, have already sharply reduced production. Production of building materials such as concrete, cement and bricks was almost a quarter lower in November 2023 than in early 2022.

Lower energy prices inhibit renovation market

Apart from higher interest rates and more expensive building materials, lower energy prices have also significantly curbed the renovation market, which accounts for about 58% of total building production. High energy prices had one significant advantage: they considerably shortened the payback period of energy interventions, encouraging many households to improve the energy efficiency of their homes. Now that energy prices are lower, a strong incentive to take energy-saving measures has faded.

Costs of many building materials remain stubbornly high

Despite the sharp fall in energy prices, the cost of energy-intensive building materials, such as concrete and cement, has barely fallen. That's because the cost of other essential inputs to produce them, such as sand, stone and clay, has risen by almost a quarter in two years, and these far outweigh total production energy costs. In addition, these materials are heavy and bulky, making transport expensive and reducing competition, allowing producers to keep prices high for longer. Some other building materials, such as wood and plastic, have fallen from their peak levels in recent months, but are still much higher than before 2022. We've written more extensively on that [here](#).

Upcoming renovation wave will boost sector in coming decades

So, 2024 promises to be a weaker year for the construction sector, but the long-term outlook is still favourable. We are on the eve of a major renovation wave. 85% of homes do not currently meet 2050 energy standards. The number of home improvements needs to be quadrupled to meet climate targets by 2050. Belgium's public infrastructure, such as highways and railways, is severely outdated and in need of major refurbishment in the coming decades.

And while that's a positive for the construction sector, many firms have problems recruiting enough specialist employees. And that could well delay the solutions to the challenges the country is facing, such as making housing stock more environmentally friendly and driving up waiting times.

Authors

Wouter Thierie

Economist

wouter.thierie@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.