

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.

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