

## Dutch construction sector to see slight contraction in 2023

Growth in Dutch construction output has been declining steadily in recent years and will contract slightly next year. A decreasing number of building permits in the residential sector, a huge increase in construction costs and a reluctant consumer will reduce new residential construction in 2023

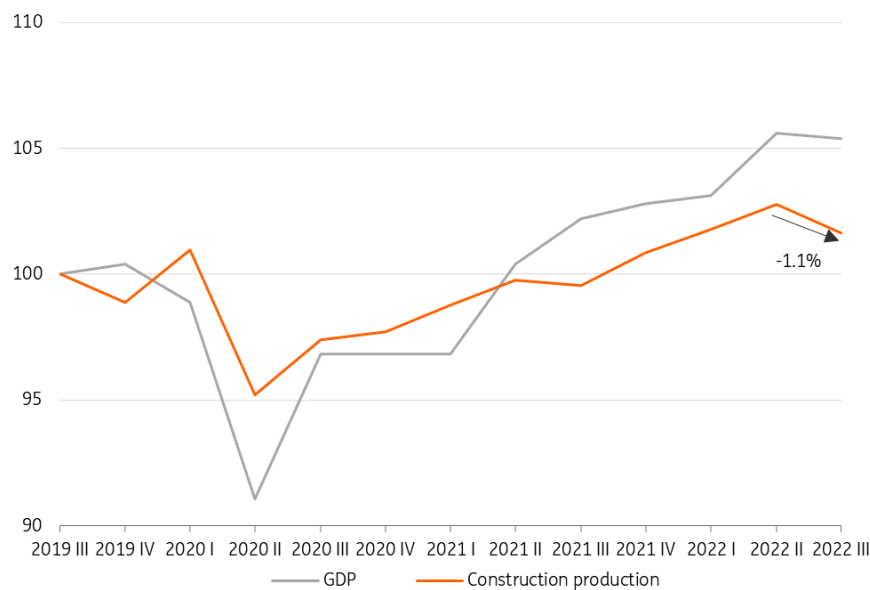


### Construction output decreased in third quarter 2022

In the third quarter of 2022, Dutch construction volumes contracted by 1.1% compared to the previous period. The Dutch economy contracted less sharply (-0.2%) during this period but was particularly depressed by lower investment. In 2021 and early 2022, construction was still growing but less strongly than the entire economy. Growth in the first half of 2022 suggests that construction output will grow by 2% overall this year.

## Decrease in construction volume in third quarter 2023

Development volume (Index Q3 2019=100)



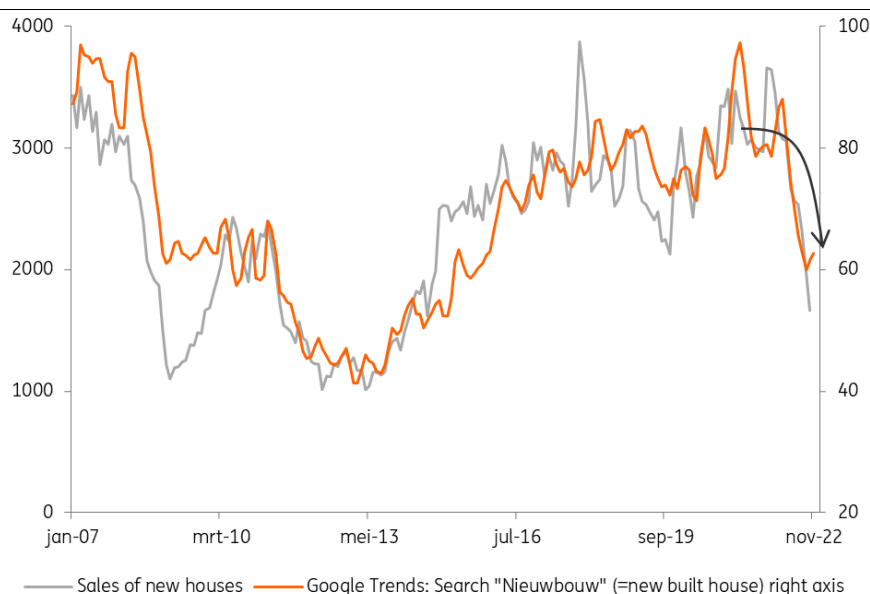
Source: Dutch Central Statistical Office & ING Research

## Sales of new homes under pressure

High inflation and geopolitical uncertainty have significantly reduced consumer confidence. This, together with higher interest rates, has put pressure on new home sales. Dutch consumers were looking for "Nieuwbouw", or newly built houses, far less in October and November, according to the number of searches on Google. The term "search less" also leads to "buy less." For example, between August and October 2022, 44% fewer new homes were sold than in the same period a year earlier. Good attractive projects are still seeing good demand, but for less attractive and more expensive new homes, project developers are finding it much more difficult to find a buyer.

## Sharp fall of interest and purchases of new buildings

Sales of new houses & relative Dutch Google search developments for "nieuwbouw" (newly built houses) where 100 is the peak result (three-month moving average)



Source: WoningbouwersNL, Google Trends & ING Research

## The end of the "nitrogen exemption" is not disastrous

At the beginning of November, the Council of State decided that the exemption for construction works for nitrogen emissions was no longer valid. This is a setback for construction companies but does not make new housing projects impossible. Granted irrevocable permits remain valid. Many construction companies had already anticipated the new ruling and had done the necessary "Aerius calculations". However, the expiry of the construction exemption will delay some projects due to a shortage of nitrogen experts.

### New non-residential buildings and infrastructure under pressure

In 2023, production in other subsectors will also come under pressure. The nitrogen issue is the main problem in the infrastructure sector, which means that projects are likely to be postponed. Investments in agricultural buildings are also expected to fall and companies, in general, will be investing less due to a deterioration in the economic situation.

## Confidence indicator for Dutch construction companies is declining but still positive

Producer confidence indicator Dutch construction sector (SA, latest data point November 2022)



Bron: Europese Commissie, Eurostat, ING Research

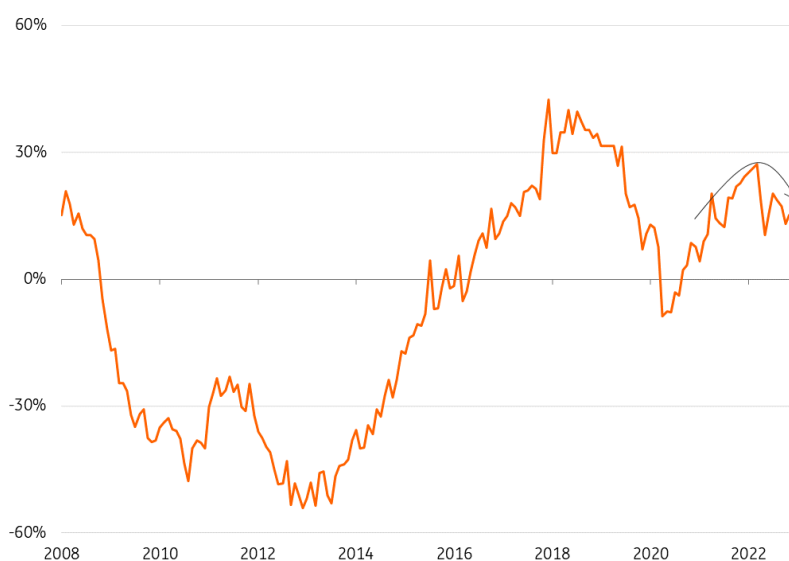
Source: European Commission, Eurostat & ING Research

## Construction confidence index is declining but still positive

Since the start of the Ukraine war, business confidence in the Dutch construction industry has declined. However, it was still positive in November. Order books are well-filled. On average, construction companies had 10.5 months of work in stock in September. That's only 0.1 months less than in February. Residential builders still have well-stocked order books with 13.2 months of work.

## Quality of order books is declining

Evolution of order books in the Dutch construction sector (SA, latest data point November 2022)



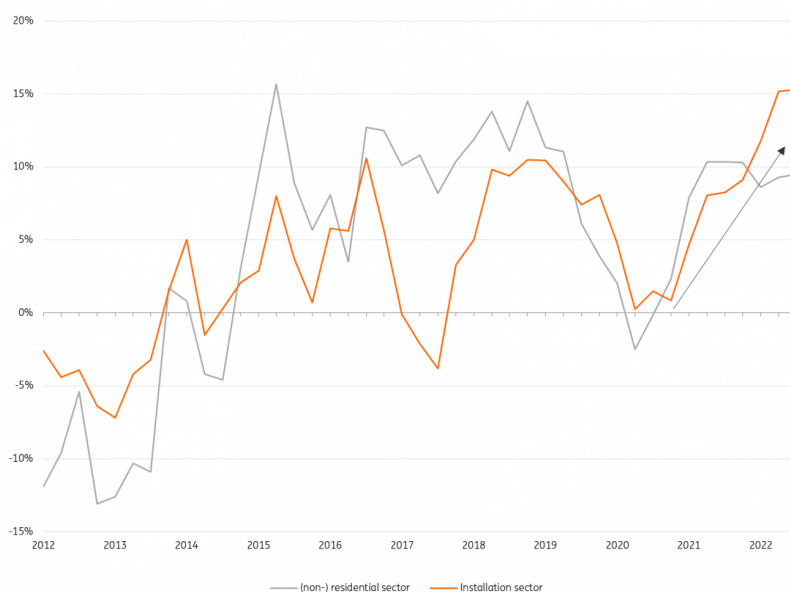
Source: European Commission, Eurostat & ING Research

## Less satisfied with order book

The increasing cost of materials makes it more difficult for businesses in the building industry. Contractors have learned in recent years to hedge their positions as best they can but this is not always possible. As a result, profit margins are regularly lower than previously calculated. In addition, due to the uncertain economic situation, some orders are somewhat less certain than previously thought. As a result, builders have in recent months become less satisfied with the quality of the orders they hold. Yet on balance, they remain positive.

## Sales increase in installation sector

Turnover development (% year-on-year)



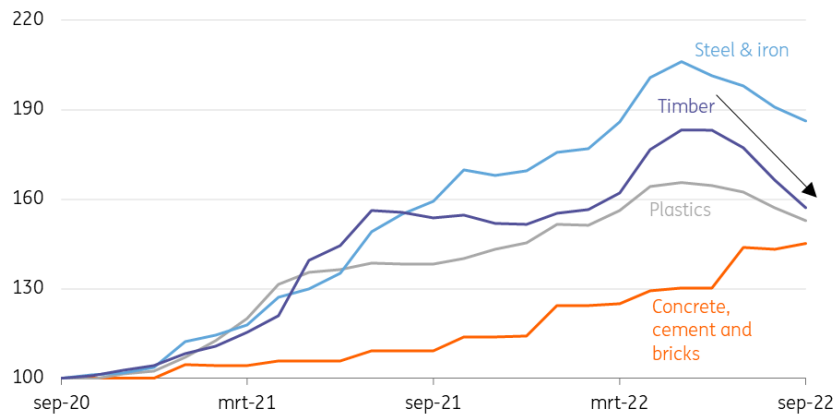
Source: Dutch Central Statistical Office & ING Research

## Installation and renovation sector provides counterbalance

As the still-positive Dutch confidence in construction shows, sentiment is certainly not bad in every subsector. For example, higher energy prices in the installation and maintenance market create additional demand for energy-saving construction works. These include the installation of (hybrid) heat pumps, installation of solar panels and insulation work. The question consumers used to ask, "What is the payback period?" has been replaced by "When can you start?". Specific volume figures are not available for the installation sector, but 2022 turnover figures indicate that this sector is showing much higher growth than the rest of the construction sector.

## Concrete is more expensive but other building material prices are decreasing

Dutch Producer Price Index (PPI) Index, Augustus 2021=100



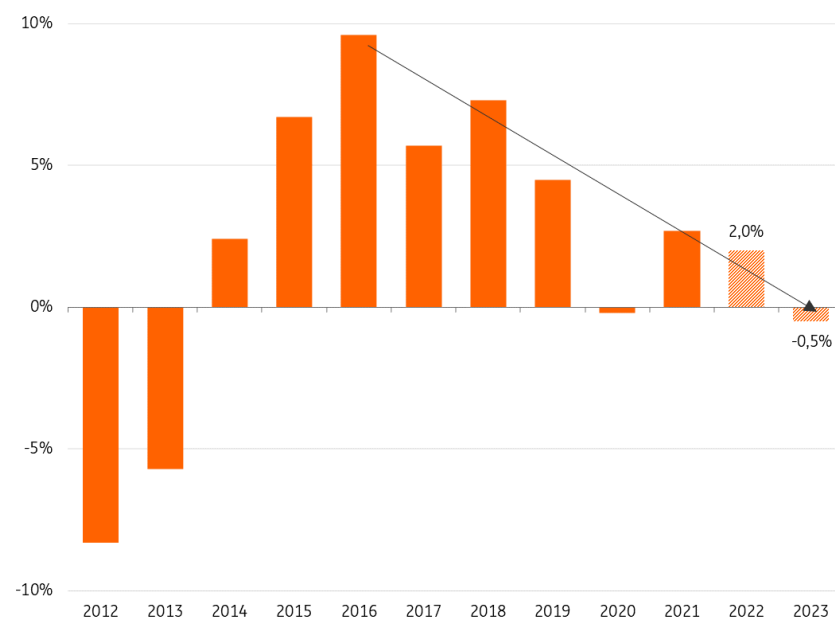
Source: Dutch Central Statistical Office & ING Research

## Wood and steel prices are falling but concrete is becoming more expensive

Prices for wood and plastic are still elevated although off their previous highs, and steel prices have calmed down as the global economy slows. However, high energy prices are still raising costs in the energy-intensive concrete, cement and brick industries, albeit with a delay.

## High growth rates in Dutch construction sector are over

Development Dutch construction production



Source: Dutch Central Statistical Office & ING Research

### Slight contraction in 2023

Overall, ING Research expects the Dutch construction sector to experience a slight contraction (-0.5%) in 2023. There are a lot of headwinds, such as the cooling of the housing market, nitrogen emissions issues, high building material prices, a shortage of building land, complex project development and capacity problems in municipalities to process building permit applications. Construction companies, on the other hand, still have well-stocked order books, and high energy prices are accelerating building activity for energy-efficient works. We expect that this will limit the contraction in overall construction output.

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