

EU construction sector faces year of decline but green shoots appear

In Europe, the issuing of building permits has fallen and building costs are still high, signalling a difficult year for the construction sector. Meanwhile, prices of existing homes are increasing again, which could foster sales of new builds



-0.5%

ING forecast for EU production volumes in 2024

Marginal construction output growth in 2023

EU production volumes increased marginally, by 0.1%, in 2023 due to a very strong first quarter. Yet, in the third and fourth quarters of the year, EU construction production decreased by 0.3% and 0.2%, respectively. High interest rates and a weak economy made home buyers and firms reluctant to invest in new buildings. In contrast, renovation works in the building sector and the civil engineering sector kept up pretty well due to sustainability works and investments in (digital)

infrastructure.

Small decline expected in 2024

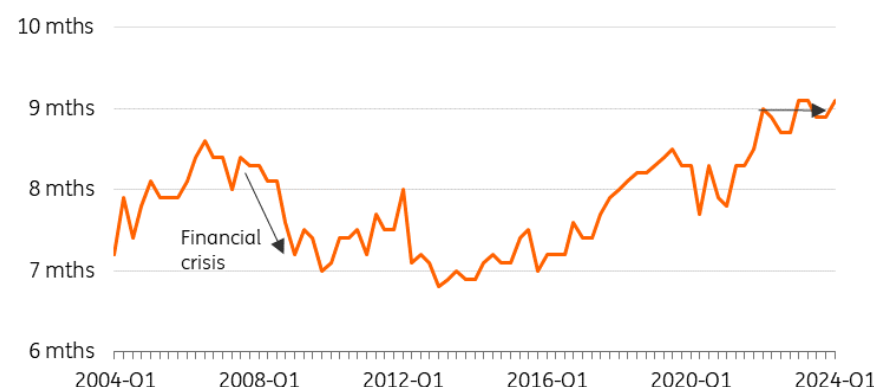
For 2024, we expect a small decline in production volumes (-0.5%). Due to long lead times, new residential and non-residential building volumes will decline further as a result of the reluctance of home buyers and firms to invest in new premises in the past. However, the renovation subsector (including sustainability works) is seeing structural growth in demand. We also expect that investments in infrastructure will continue to grow. The main drivers for this continual growth will derive from the EU Recovery funds, investments in digital infrastructure, extensions of the power grid and the energy transition.

Some room for optimism for 2025

For 2025, we expect that the above-mentioned growth trends in the renovation and infrastructure sector will continue. We also expect the new building sector to slowly improve due to the recovering housing market. However, this will take some time as they are limited by the declining amount of issued building permits in the short run.

Order books for European contractors remain stable

Backlogs in months work, EU-27 construction companies



Source: Eurostat, ING Research

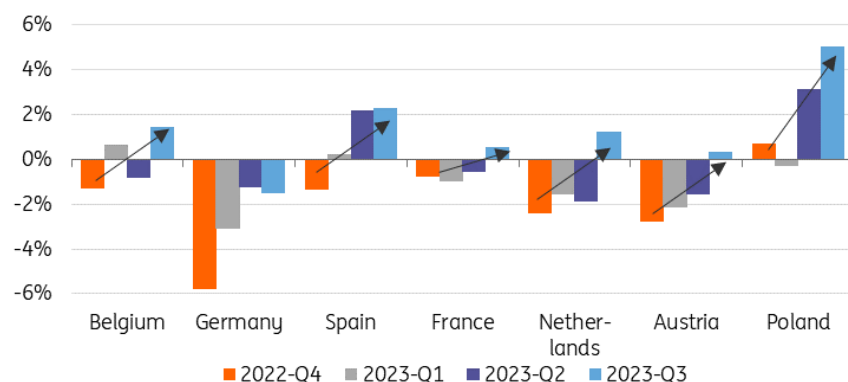
Order books remain well filled

The stock of contractor work has remained remarkably stable for the past two years. At the beginning of 2024, EU construction firms had 9.1 months of work in their portfolios - similar to the same period a year earlier when it was at a peak. Compared to the developments during the financial crisis in 2008 and 2009, currently, there is no visible decrease. There may be various reasons for this:

- The economic downturn during the financial crisis was more widespread than the economic downturn now;
- Order books of contractors consist not only of new construction but also of renovation and sustainability. The growth in these latter sub-sectors (renovation & sustainability) is **more stable and higher**, which also increases their share in the construction sector;
- Projects have become more complex to execute in recent years, resulting in more work and a longer duration.

In many countries house prices are increasing again

Price development of existing houses, quarterly rate of change (quarter-on-quarter)



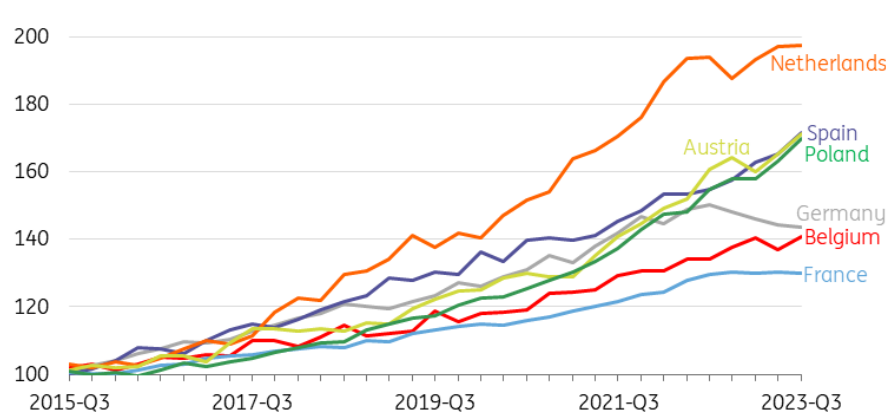
Source: Eurostat, ING Research

Housing prices take a positive turn

In many EU countries, house prices have started to increase again, after a period of decline. Structural housing tightness, especially in cities, supports demand. [Increasing wages](#) makes it possible for house buyers to borrow more albeit at higher interest rates, thus driving up house prices. For instance, [Spanish house prices](#) went up by more than 4% in 2023 and we expect a further, but lower increase in 2024. Only in Germany, where the economy is more sluggish, are house prices still declining.

Prices of new houses are increasing in most countries

Price developments new houses, Quarterly index, 2015=100



Source: Eurostat, ING Research

Prices of new houses are increasing

Higher prices of existing houses are good for new residential building volumes, although it will take some time to materialise. Sale prices of new houses are [closely related](#) to prices of existing houses as they are often substitutes for consumers who are in the market for a new home. Therefore, price developments of the two can't and won't diverge too much in the medium and long run. So, when house prices of existing houses increase again, this also gives the opportunity for project

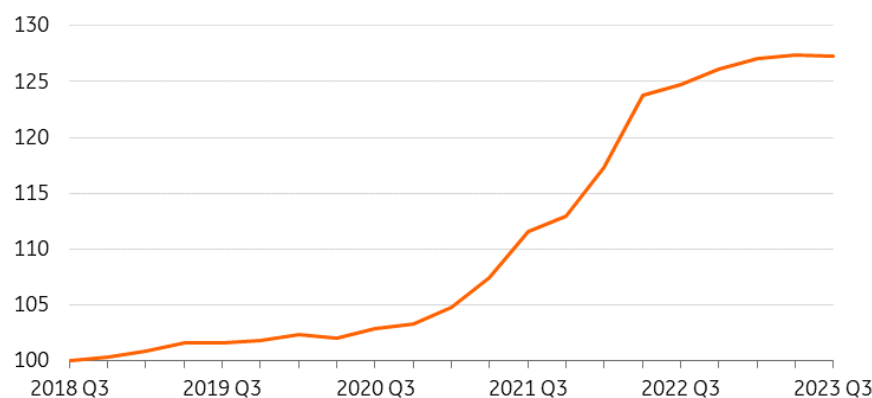
developers, although it won't always be easy, to increase the sales price of newly built houses. This is also what we see happening. Prices of new houses are increasing in most EU countries. In France, they remain more or less stable as house prices of existing houses do. Only in Germany are residential project developers being forced to decrease sales prices as house prices of existing homes are also still declining.

Pass through of higher building costs

Higher sales prices of residential properties gives contractors the opportunity to pass through the higher building material costs which have increased enormously in the last couple of years. Yet, [building material prices](#) have stabilised in 2023, although each specific material follows its own price path.

Construction costs have stopped increasing

Development construction costs (materials & labour), new residential buildings EU-27 (Index 2018 Q3=100)



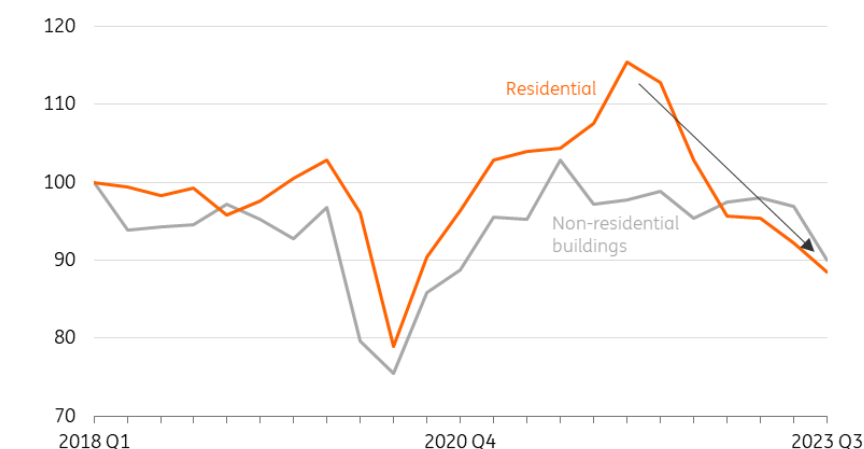
Source: Eurostat, ING Research

Building permits are becoming the biggest bottleneck

The number of approved permits has decreased over the last two years. Project developers and residential builders have been hesitant because of the challenging market. In the third quarter of 2023, there was a decline of 14% in issued permits for residential buildings compared to the same period a year earlier. Recent data doesn't show any improvement yet. The demand for new-build houses seems, as we indicated above, to have improved somewhat. Now however, it is the supply side that will become the main bottleneck in many countries due to a shortage of building land, financial issues, complex project development and/or legal delays. It will take some time before project developers start new projects and apply for new permits. We, therefore, expect a further decline in the new residential sector in 2024, before recovering in 2025. Huge [housing shortages](#) in many European cities will also ensure sufficient demand in the residential sector in the long run.

The issuing of EU building permits is declining

New non-residential buildings permits in m2 excluding offices & new number of residential buildings permits in the EU (index 2018 Q1 = 100, SA)



Source: Eurostat, ING Research

Highest decreases in Austria & Germany

Austria & Germany have seen the sharpest decline in the number of issued permits for new houses, which have declined by approximately 40% in the last two years. For Austria, this is due to the end of housing subsidies for new housing construction, as well as higher interest rates and building costs. In Germany, the sluggishness of the economy plays a role. Belgium, the Netherlands and France all saw a drop in issued permits of between 20% and 30% in the same period.

Huge permit growth in Spain

Spain is the outlier, with the number of residential building permits skyrocketing over the last couple of years. In the first three months of this year, these were more than 2.5 times higher than two years earlier. [Higher house prices in Spain](#) make it possible to increase prices of newly built houses as well, which compensates for higher building costs.

Permit issuing for non-residential buildings starts to drop

The non-residential sector seemed to be resilient to the sluggish European economic developments in 2022 and 2023. There was hardly any decline in issued permits. This was mainly due to a rise in e-commerce, which increased the demand for new logistics centres and consequently the number of issued permits. Public spending on buildings for education and health also stabilised demand. However, the slowdown of economic growth, higher interest rates and both geopolitical and economic uncertainty are making companies in other sectors more and more hesitant towards investment in new premises. Therefore, we now see a sharp decline in the last data available. Permit issuing for new offices has come under particular pressure. Working from home and high vacancy rates make current investments in new offices a risky proposition.

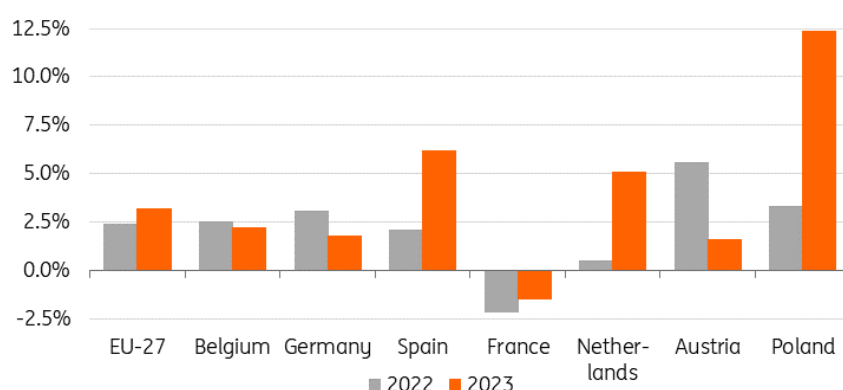
Continuous growth in infrastructure sector

The infrastructure sector is more resilient to the economic cycle as investment mainly comes from local or central governments. The EU infrastructure volumes have shown moderate growth in 2022

(2.4%) and 2023 (3.2%) which supports total construction volumes. The subsector benefits from needed investments in the energy transition, especially for new power grids and investments in digital infrastructure such as fibre to the home. Challenges also arise in the field of drinking water, as population growth and climate change lead to more frequent dry periods in many places.

Growing infrastructure sector in most countries

Development production volumes civil engineering (% year-on-year)



Source: Eurostat, ING Research










Stimulus from EU funds bolsters growth of the infrastructure sector

In Spain, civil engineering is benefiting from the Next Generation EU funds, leading to the launch of numerous ready-to-go infrastructure projects long delayed by resource constraints.

In Poland, substantial investments in road infrastructure have bolstered growth. Additionally, several previously delayed railway projects are anticipated to begin in the coming years, further driving progress. The execution of numerous projects in the planning will be fostered by removing the access restrictions by the European Commission that blocked the utilisation of allocated EU funds. Yet, it will take some time before some of these projects materialise.

EU Construction Forecast

Volume output construction sector, % YoY

		2022	2023*	2024*	2025*
	Austria	3.0%	-1.4%	-2.0%	1.0%
	Belgium	1.5%	0.6%	-1.0%	1.0%
	France	2.1%	-0.5%	-0.5%	1.0%
	Germany	-1.5%	-0.9%	-2.0%	0.0%
	Netherlands	4.1%	1.7%	-2.5%	1.0%
	Poland	8.2%	5.3%	2.0%	2.0%
	Spain	-7.5%	5.6%	2.0%	2.0%
	European Union	2.6%	0.1%	-0.5%	1.0%
	Turkey	-7.1%	5.0%	3.0%	3.0%

Source: Source: Eurostat & ING Research; *Estimates and Forecasts

EU country construction developments at a glance

Belgium: 2024 will be a tougher year

The [Belgian construction](#) confidence index entered negative territory in 2023. Yet, Belgian construction output still showed an increase last year due to the late cyclical nature of the sector due to long lead times from building projects. Looking ahead to 2024, we expect more challenges and we expect a slight decline. The issuance of building permits for residential buildings has decreased in the last two years, but more moderately than in other countries. There are still structural drivers: the infrastructure needs an upgrade, 85% of the homes do not currently meet the 2050 energy standards and housing shortages persist. We therefore expect that growth will return in 2025.

France: marginal decline in 2024

French contractor sentiment has become gradually pessimistic in 2023. In February, the French construction confidence index (EC survey) was still marginally negative. In addition, French construction order books are a bit less well-filled. French contractors now (1Q 2024) have 7.9 months of work on average in their backlogs compared to 8.1 months in the first quarter of last year. Yet, compared to the long-term trend this is still relatively high. The issuing of building permits for new houses is also decreasing, but at a slower pace than in many other countries. Labour shortages are less of an issue but are still relatively high. Government measures such as MaPrimRénov are supporting renovation and sustainability activity. For 2024, the budget of this scheme has increased from €2.5 to €4 billion. The plan was first to increase the budget to €5bn but due to budget restraints it has been decreased. Overall, we expect that French construction output will decrease marginally by 0.5% in 2024.

Germany: no end to the ongoing decline in 2024

In 2023, German construction activity decreased by 0.9% after already experiencing two years of decline in 2021 and 2022. For 2024, we forecast a further moderate contraction of the largest construction market in the EU. While the order book assessment of contractors in the EU remains stable, German building companies have faced a decline to 3.6 months of work in the first quarter of 2024, down from 4.5 months a year earlier. A further decline in building permits for new residential buildings during the third quarter of 2023 signals ongoing challenges. The bankruptcy of several project developers last year due to high building costs exacerbates the situation. Consequently, the government target of 400,000 newly built houses won't be reached this or next.

Yet, the German civil engineering sector provides some counterbalance. German infrastructure is in a dire state and investments in roads and digital infrastructure foster some growth in this subsector.

Netherlands: Small glimmer of hope for housing construction

As in other countries, the issuing of building permits in [the Netherlands](#) has decreased enormously in the previous quarters. Yet, demand for new houses is picking up and the number of new houses sold has increased in the last few months. For instance, in February, this increased by more than 50% compared to the same month in 2023. However, as in other countries, the pain of previous sales declines still has to be taken in 2024 and the permit issuing has to increase as well before we see growth again in 2025.

Many major Dutch infrastructure projects are experiencing delays due to the nitrogen issue and higher-than-expected costs. The government has therefore decided that many new infrastructure projects will be temporarily put on hold (not meaning cancellation). Projects that have already begun will be completed. However, the budget for the maintenance of railroads will increase in the coming years.

Poland: Lower growth in construction sector

In Poland, the construction sector grew by 5.3% last year. The higher volumes were mainly driven by the infrastructure sector. The beginning of 2024 was less promising, [Polish construction output](#) fell 6.1% in January (year-on-year) as many projects under the previous EU financial perspective have ended. The startup of new EU-financed projects will take some time. Also, the building sector is performing less well. Building permits for residential buildings decreased by 6% in the third quarter of 2023 (YoY). That said, in February, the construction confidence indicator was still higher than in the same period a year earlier and contractors were also more satisfied with their order books, which are well filled with 8.8 months of work. Overall, we anticipate that total Polish construction output will still grow this and next year but at a slower pace than in the previous two years.

Spain: High growth in construction sector

The Spanish construction sector grew by a very solid 5.6% in 2023. This looks impressive but we shouldn't forget that the industry has seen some bad years. By the end of 2022, the production level was almost 25% lower than it was at the end of 2019. Yet order books are now improving and have touched the highest point in the first quarter of this year since 2006. The EU's recovery fund investments in the Spanish construction sector generate a more positive outcome moving forward. The increase in building permits will also have a positive effect on building volumes. Yet the question will remain as to how many approved projects will actually be built as challenging circumstances persist. Nevertheless, we expect

further growth in the Spanish construction sector in 2024 and 2025.

Turkey: growth after a long period of decline

For the first time in five years, the Turkish construction sector grew in 2023. Production volumes increased by 5%. In February, the Turkish construction confidence indicator (EC survey) showed a negative reading of -7.4. Still negative, but it has been slightly improving in the last six months. However, order books recovered slightly in 2023 but fell back in the first quarter of 2024. Fewer Turkish contractors are complaining about low demand, and the issuing of building permits is pretty much stable. The earthquakes in 2023 have caused massive damage to over 300,000 buildings. The aim is to rebuild approximately half of this within one year. This drives up demand for building materials and construction workers. Our expectation is that reconstruction efforts will generate further growth in the Turkish construction sector in 2024.

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