

EU construction outlook: Modest growth amid labour and material shortages

The outlook for EU construction remains positive amid a lack of staff and materials. The residential sector is profiting from strong housing demand. The non-residential sector is recovering as uncertainty from the pandemic fades, and as firms in several industries are more willing to invest in new premises



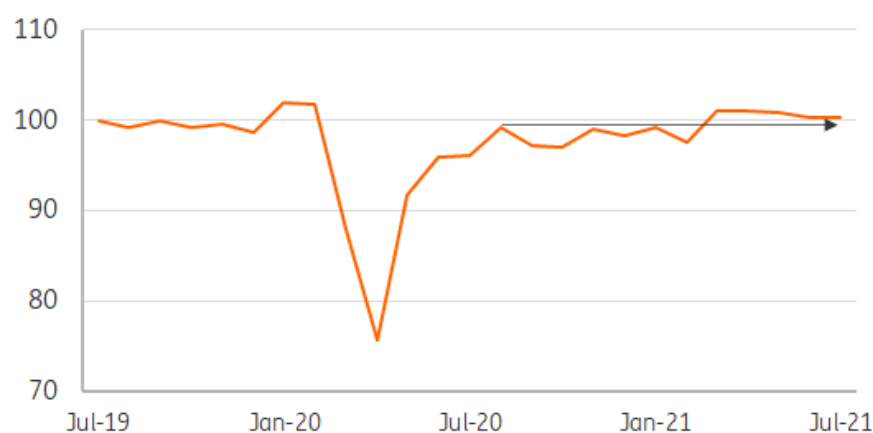
People at a construction equipment exhibition in Munich, Germany

Construction output resilient after first lockdown

In April 2020, during the first lockdown, EU construction output decreased by approximately 25% compared to January 2020. Differences between countries were huge. France experienced the biggest contraction in production volumes since many French construction sites closed down. Yet in Germany and the Netherlands, there was almost no decline because construction sites remained open. Since the first lockdown, EU construction output has been fairly resilient to Covid outbreaks as construction sites have remained open.

EU construction output moves sideways after first lockdown

Construction production European Union volume (index July 2019=100 SA)



Source: Eurostat, ING Research

EU construction volumes hover around pre-Covid levels

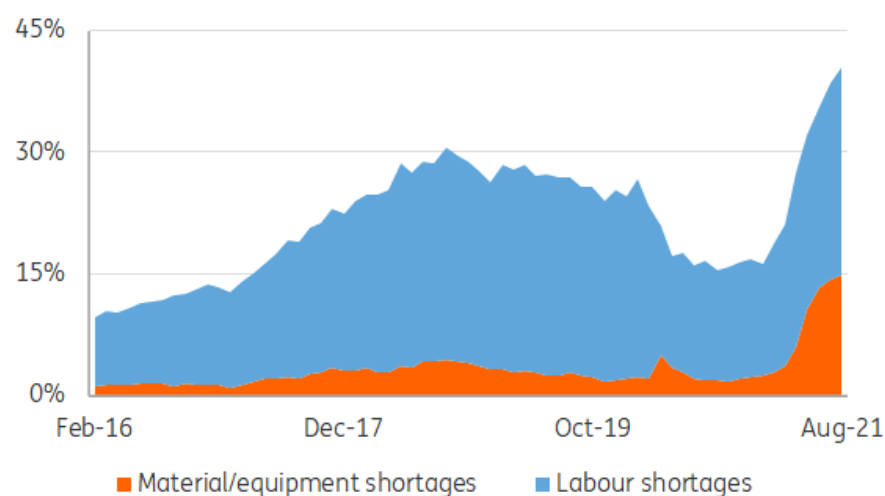
The building sector (residential and non-residential) was more vulnerable to the lockdown than the infrastructure sector as more work is performed indoors. However, since the end of the first lockdown, production levels for building have been pretty stable. In July 2021, production volumes were nearly at the same as in August 2020 after the first lockdown. Yet, output from the EU infrastructure sector was a bit more volatile during this period due to bad winter weather in the more northern regions. This resulted in shrinking volumes in this sector in February followed by a catch-up in March when weather conditions improved.

A record number of contractors face material shortages

Supply chain disruptions, due to the Covid-crisis, decreased the supply of building materials just as construction output bounced after the first wave of the virus. This resulted in shortages and price hikes. In August, a record percentage (15%) of EU contractors indicated lower production due to a lack, or delayed delivery of building materials. Shortages are especially high in Germany, Austria and the Netherlands as production levels, and therefore demand for inputs, have remained relatively high in these countries. We expect that these [building material shortages will continue](#) until at least the beginning of 2022. However, according to an EC survey, there are almost no construction firms that mention a shortage of building materials in France, Spain and Turkey.

Shortage of labour and building materials

% EU construction firms that have to limit production because of (cumulative):



Source: European Commission, ING Research

Structurally not enough staff

Another factor limiting production, but with a more structural nature, is the availability of sufficient labour. In a European Commission survey, a quarter of the EU contractors cite this as problematic, especially firms in Germany, Austria and France. Companies can do several things to try to solve this problem. For instance by increasing labour productivity through [industrialisation](#) and digitalisation, attracting skilled workers from abroad, or investing in education for younger employees and trying to commit them to the company for a longer period.

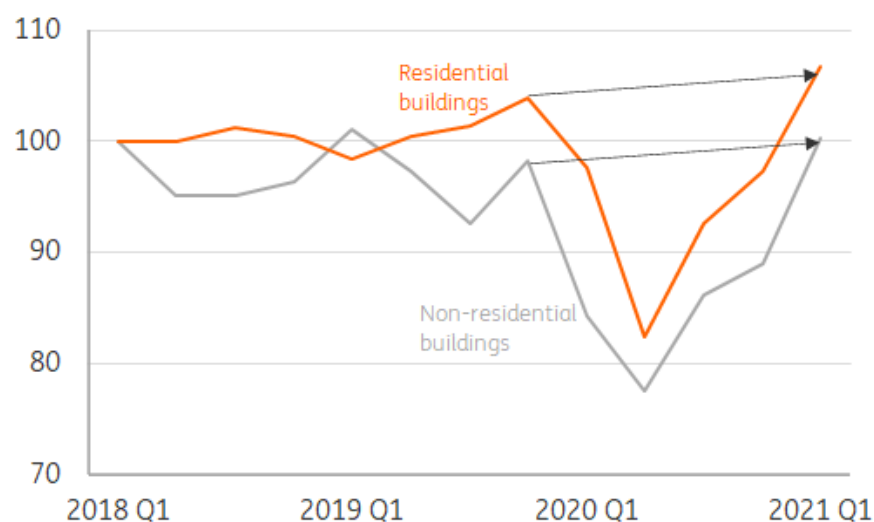
26% EU contractors with labour shortages

Issuing of building permits on the rise

The number of approved permits in the EU has strongly bounced back after the first lockdown. This applies to permits for residential buildings as well as permits for non-residential buildings. In the first quarter of this year, both were higher than before the pandemic started. The huge housing shortages in many European cities ensure sufficient demand in the residential sector.

EU building permits above pre-virus levels

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

Diverse developments in the non-residential sector

Nonetheless, the rebound in the non-residential sector is a bit more diverse. Uncertainty about the future of working makes current investment in new offices risky. In the long term, the question is to what extent the trend of working-from-home will be permanent and how much demand there will be for office space. The increasing trend of hybrid working could also result in demand for the refurbishment of offices to make them suitable for this new way of working. Yet the rise in e-commerce has increased demand for new logistics centres and the number of issued permits.

Hence, the issuance of permits is a strong indicator for future production, and as the number of permits is improving, we expect growing volumes in the residential and non-residential sector.

✓ Country Comparison

Catch-up in permits for new houses in France and Spain

Permits for new houses plunged in France and Spain at the beginning of 2020 because both countries implemented strict lockdowns and civil servants had difficulties processing applications whilst working from home. In France, in the second quarter 2021, the number of issued permits was only slightly below pre-pandemic levels partly due to a strong improvement in the third quarter of 2020. Spain saw a similar decline in the second quarter 2020, but the recovery didn't start until the beginning of 2021. However, they're still well below pre-Covid levels and that's a cause of concern for future construction.

Stable numbers in Austria and Germany

In Austria and Germany, and to a lesser extent Belgium, permit issuing has moved mainly sideways in the last two years. In Germany, this marks the end of a strong upward trend that was seen in the decade before. There are several reasons for this including, shortages of building land,

high prices, the above-mentioned labour shortages in the construction sector and time-consuming permit procedures.

In Austria, the number of new housing permits is also hovering around the same level in 2020 and the first half of 2021. Yet, the graph shows that the number of Austrian permits was still below the level seen at the end of 2019. However, this is due to a peak in Austria's permit issuance in the last quarter of 2019.

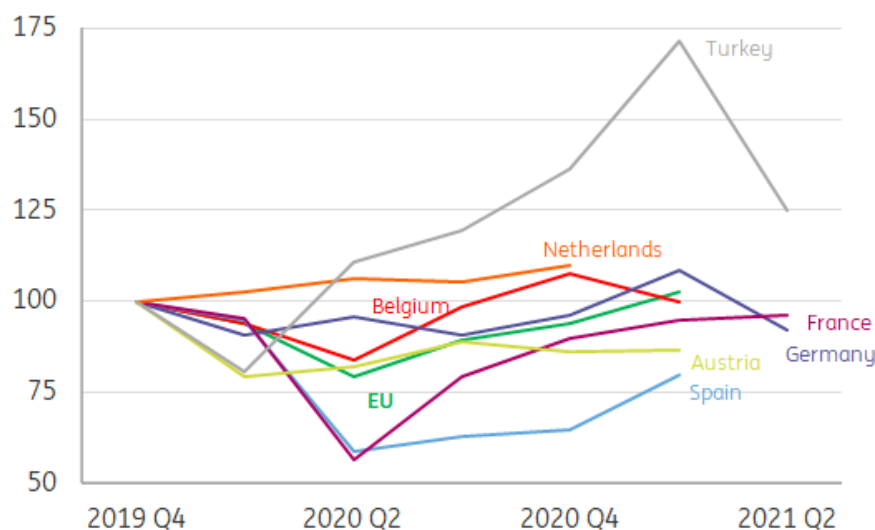
More permits in the Netherlands and Turkey

In the Netherlands, the number of permits issued for new homes was approximately 10% higher in the fourth quarter of 2020 than at the end of 2019. Eurostat doesn't provide the Dutch numbers for 2021 at the moment but based on local data the upward move continues. Nitrogen emissions are still an issue, but there are several new measures to keep construction on track. The central government has agreed to speed up the decision-making process for large housing projects and there will be funds reserved until 2030 to reduce the deposition of nitrogen in nature areas in order to compensate for construction emissions.

Turkey's issuance of new housing permits has followed a bumpy road in 2021. It plunged sharply in the second quarter after a peak in the first. But it is still 25% above the level seen at the end of 2019. However, this is far below that of 2017 before the Turkish exchange rate crisis which resulted in a big rise in construction costs and consequently, a sharp drop in building activity in 2019.

EU permits for new homes above pre-virus level

Building permits, number of new dwellings, (index 2019 Q4 =100, SA)



Source: Eurostat, ING Sector Research (No data available for 2021 Q2 (and 2021 Q1) for EU, Belgium, Austria, Spain & The Netherlands)

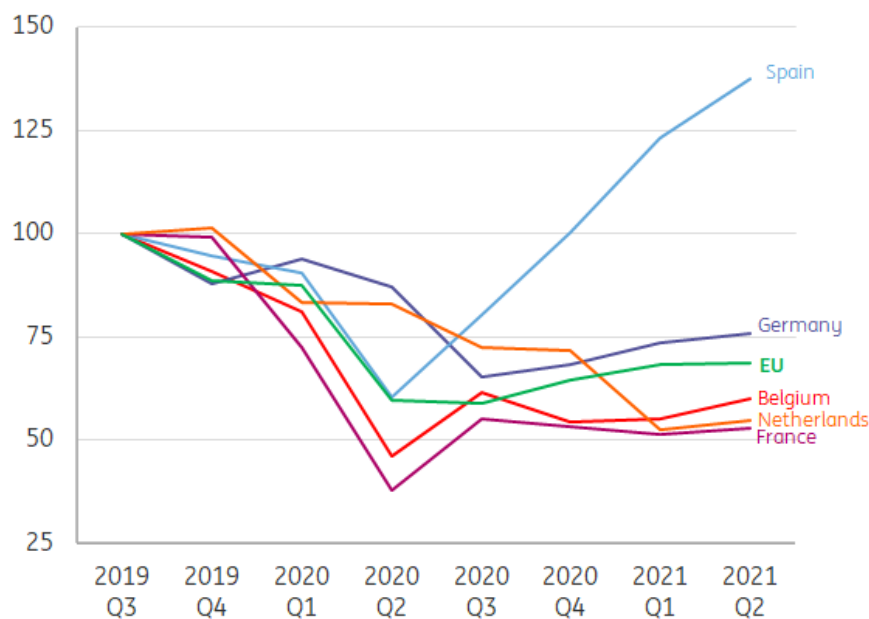
EU contractor bankruptcies have remained low

As in many other sectors, the number of bankruptcies in the construction sector has remained surprisingly low. At the beginning of this year, there were even fewer contractor liquidations than before the pandemic. The massive intervention of governments

to compensate for the effects of the loss of activity has limited the number of bankruptcies. Furthermore, the construction sector was modestly affected in comparison to other sectors, like hospitality and aviation. However, in Spain, more building companies had to close their doors. That's probably because the contraction of construction volumes in Spain was relatively high in 2020 and the fiscal measures in Spain were limited compared to other hard-hit countries, such as France and Italy.

Low number of bankruptcies, except for Spain

EU bankruptcies in the construction sector, (index 2019 Q3 =100, SA)



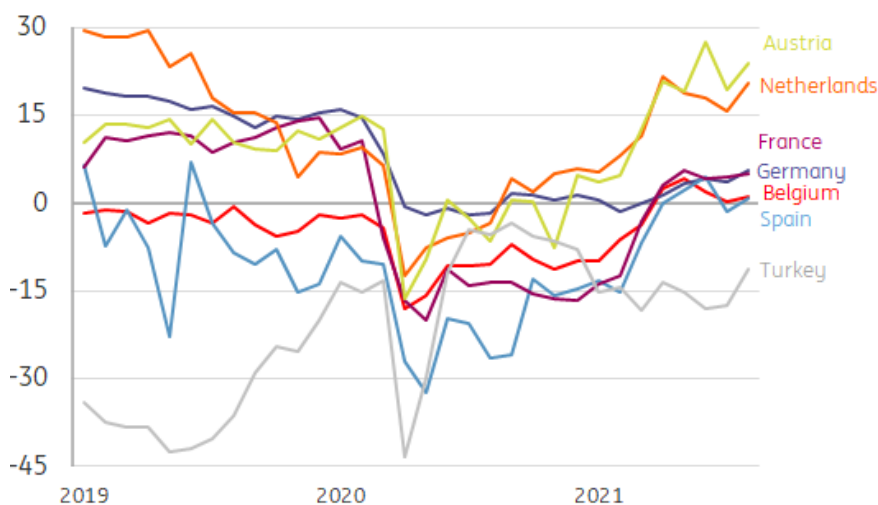
Source: Eurostat, ING Research (No data available for Austria & Turkey)

Construction confidence indicator positive in many European countries

Since April 2021, the EU Construction Confidence Indicator has been positive, reaching its highest point in August. The highest values are registered in Austria and the Netherlands. Optimism among contractors in both countries was already high before the Covid-19 outbreak and recovered fast after the first wave. Furthermore, construction volumes in these countries were barely hit during the lockdowns as construction sites remained largely open. However, Spanish construction sentiment was already negative before the pandemic and waned to very low levels during the lockdowns. Despite this, even in Spain, the optimists slightly outnumbered the pessimists in August 2021.

Construction confidence positive in main European countries

Construction confidence indicator, SA











Source: Eurostat, ING Research

Forecast: EU construction volume is expected to grow in 2021 and 2022

Looking through everything that is happening at the moment, the outlook remains optimistic on average. Even with the temporary shortages of building materials and the structural shortages of labour, we expect growth in the EU construction sector in 2021 and 2022. Housing shortages and high house prices in many countries provide structural demand for new residential construction. In addition, non-residential construction will see a rebound as the Covid-crisis fades, and businesses in sectors such as manufacturing and hospitality are less reluctant to invest in new company premises or refurbish their existing properties.

Construction forecast

Volume output (value added) construction sector, % YoY

		2020	2021	2022
	Austria	-4.1%	4.0%	2.5%
	Belgium	-4.7%	7.0%	2.0%
	France	-16.1%	12.0%	3.0%
	Germany	2.8%	0.0%	2.0%
	Netherlands	-0.8%	2.0%	3.0%
	Spain	-14.5%	-4.0%	1.5%
	European Union	-5.1%	5.0%	2.5%
	Turkey	-5.5%	4.0%	5.0%

Source: Eurostat, ING Research

Looking at individual countries we see a strong recovery in **France** and **Belgium** this year. However, the construction sector in both countries was severely hit by the pandemic in 2020 so this growth reflects a rebound from low levels. And French construction output still won't reach its pre-Covid level next year. For **Turkey**, we also expect high growth this year and next, but output volumes won't reach the levels seen before the Turkish financial crisis.

For **Spain**, we forecast a decrease in construction output for this year as volumes have decreased in the first half-year. In addition, Spanish building backlogs are currently poorly-filled and building permit issuance is still at low levels and shows only a slow recovery. Therefore we assume only weak growth in the Spanish construction sector next year.

The Netherlands saw a minor contraction in construction output last year. Construction sites stayed open during the pandemic but building restrictions due to excessive nitrogen emissions limited production, especially in the infrastructure sector. As there are several government measurements being introduced to deal with the nitrogen issue, growth is picking up and we expect this will continue next year.

Germany is the only country that did not witness a decrease in construction volumes in 2020. However, construction output declined by 5% (quarter-on-quarter) in the first quarter of 2021 due to bad weather and pull-forward effects due to the termination of the VAT reduction at the end of 2020. Construction volumes didn't bounce back in the second quarter and remained low. In addition, German contractors are among the most constrained by labour and material shortages at the moment. Therefore, we expect that German construction will show no growth in 2021. Nevertheless, order books are on the rise, and when the supply chain disturbances die out in 2022 there will be some room for growth again for the country with the largest construction sector in Europe.

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