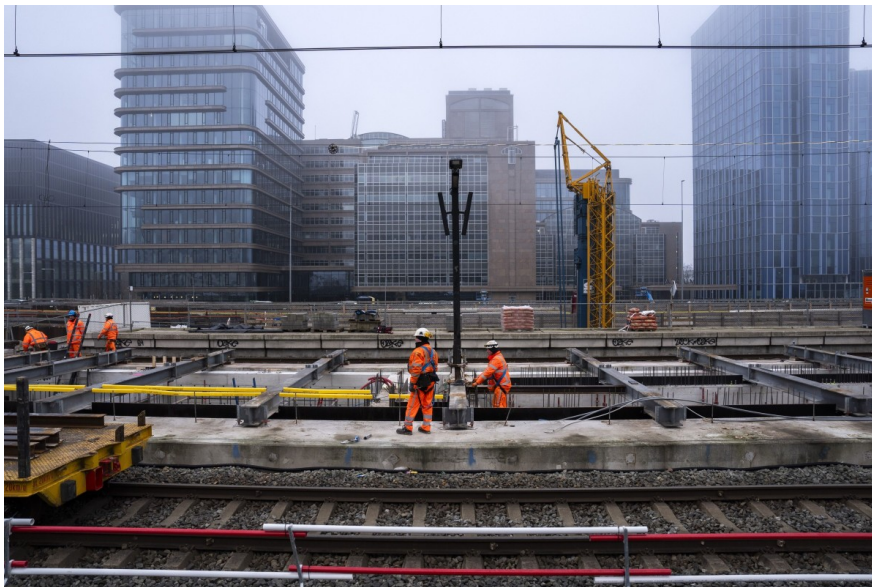


Growth returns to Europe's construction sector

After a year of decline, we think the European construction sector will return to growth in 2025, but it's going to be a slow process. House prices are rising once more, and that makes building new houses a more attractive proposition for project developers



The outlook for Europe's construction industry is improving. Pictured: major works at Amsterdam's Zuid Station

Low growth expected in 2025

We expect a marginal increase in total European Union construction volumes this year, but don't get too excited; we're looking at a figure of just 0.5%. This follows a 2% decline in 2024. Optimistic signs are slowly becoming visible. Monthly construction volume data was already showing some growth in October and November last year. House prices of existing houses began to increase in 2024, and that's giving home developers the opportunity to demand higher prices for new buildings, enabling them to cover the costs of the increased building material prices from recent years.

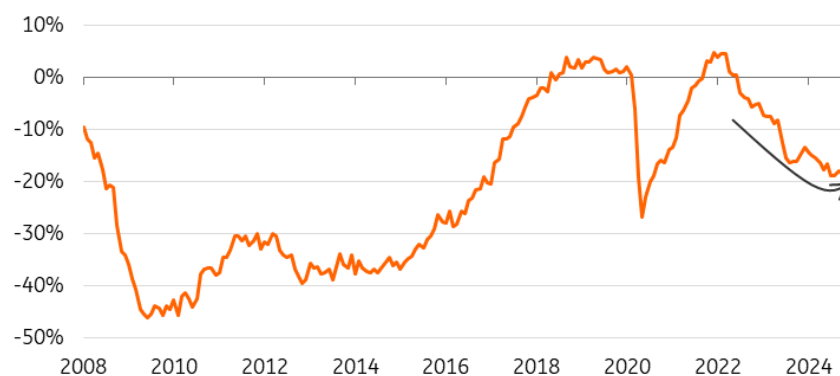
It looks like the lowest point has been reached

That said, contractors are still pessimistic about the size of their order books, but it does look as though the lowest point has been reached. The issuance of building permits was somewhat disappointing in the third quarter of 2024. However, the sharp decline we saw earlier has stopped, and compared with the same period in 2023, it actually grew, albeit marginally.

We foresee a structural demand shift in growth for the renovation subsector (including sustainability works). We also expect that investment in infrastructure will continue to grow. The main drivers for this growth will come from the EU Recovery Funds, investment in digital infrastructure, waterworks, extensions of the power grid and the energy transition.

Order books for EU contractors are slowly improving

Order books in the EU construction sector (Seasonally Adjusted (SA); the latest data point December 2024)



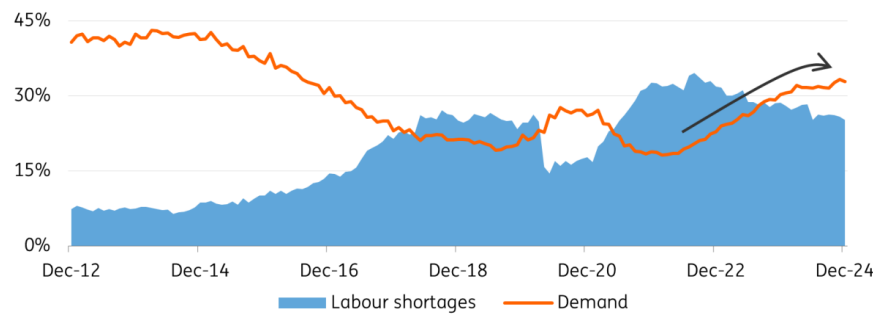
Source: Eurostat, ING Research

Labour shortages and low demand

Due to 2024's production decline, fewer contractors have been experiencing labour shortages, but it's still a problem. Back in December, a quarter of all EU construction employers still complained about not having enough construction workers, although that was down from 32% in December 2023. This is a structural problem due to an ageing workforce. Companies need to invest in efficiency gains (industrialisation and digitalisation) to solve this long-standing issue. Due to the sluggish economic situation, building firms increasingly mentioned a lack of demand. This only marginally declined in the last month of 2024.

Demand restraints have stopped increasing

% of EU construction firms that have to limit production because of labour shortages or demand.



Source: European commission, ING Research

House prices are rising again, hitting records

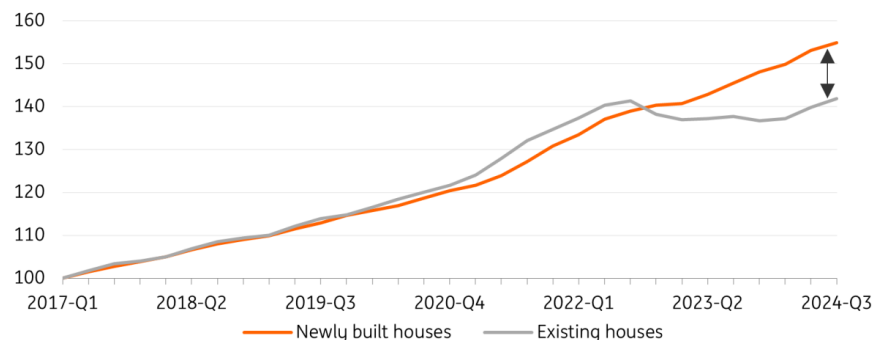
The price of existing homes within the EU started to increase again in 2024 after declining the previous year. The latest Q3 2024 data shows a price appreciation of 1.5% and that means the price of existing EU homes reached a new record level. It's a good sign for new developments as house prices of newly built and existing homes normally follow each other closely; they can't deviate too much as new and existing houses are substitutes for consumers.

A large gap between new and existing house prices

That said, in the last couple of years, we have seen a drift between the cost of new and existing homes. Since building costs increased, developers weren't able to reduce prices, which resulted in a decline in their competitiveness, a decline in sales of new houses, and lower production. Yet, the gap between new house and existing house prices is still large but marginally decreasing. When this process continues, it can stimulate the residential building sector.

Newly built house prices are outpacing existing homes

Price index houses EU-27 (Index 2017 Q1=100)



Source: Eurostat, ING Research

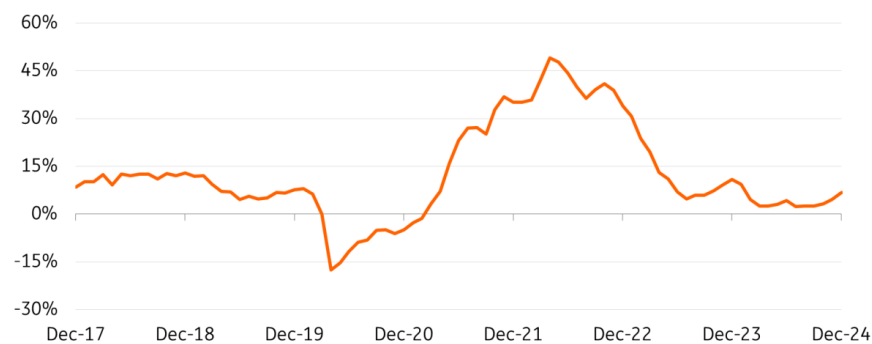
As always, there are significant differences among countries. The biggest gaps are in Germany, Spain and Turkey. These large price differences make newly built homes less competitive in these countries. The Netherlands stands out as the only country in our analysis where the prices of existing houses have already outpaced the prices of new builds. This makes Dutch new houses attractive for homebuyers and allows developers to increase sales prices to cover their increased building costs of the past.

Few builders plan to increase prices

Few contractors were planning to increase their sales prices at the end of 2024. Due to the decline in production, contractors no longer have to pass through higher input prices and encounter more competition. Nevertheless, there has been a slight increase in builders who want to increase prices. This could be due to the construction market slowly improving and increasing gas prices, which can make energy-intensive building materials more expensive.

Few contractors plan a sales price increase

Balance of construction companies in the EU that expect to increase or decrease output prices (over the next 3 months)

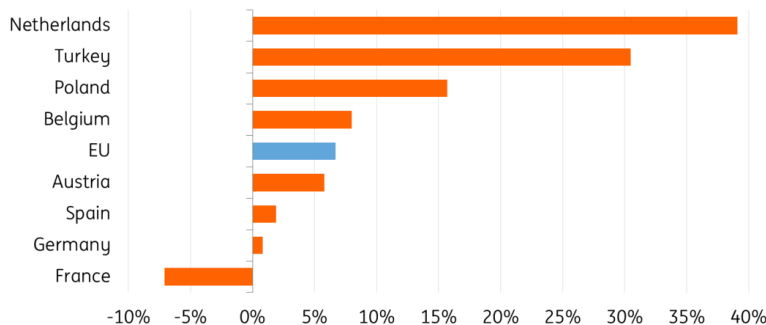


Source: European commission, ING Research

We've particularly not seen major price increases in Germany and Spain. In December 2024, just around 1% of German companies were planning to increase their sales prices. In France, the majority were even planning to decrease them due to sluggish demand. In comparison, high price increases are expected in the Netherlands, Poland, and Turkey, and, in the latter case, this reflects the country's far higher inflation rate. In the Netherlands, demand is really improving, resulting in opportunities for builders to charge more

Most price increases expected in the Netherlands

Balance of construction companies that expect to increase -/- decrease output prices (over next 3 months) in December 2024



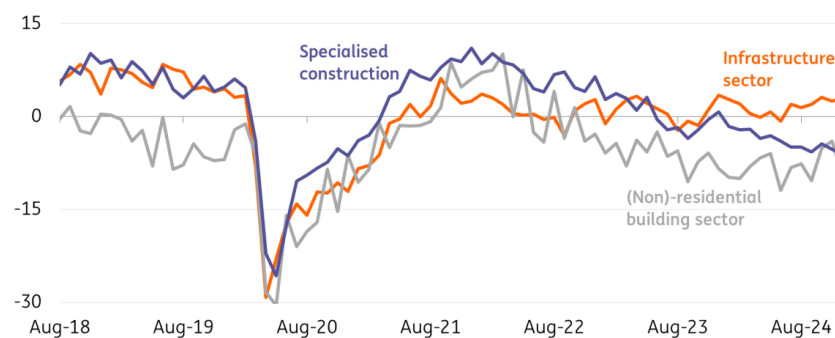
Source: European commission, ING Research

Growth continues in the infrastructure sector

The infrastructure sector is more resilient to the economic cycle as investment mainly comes from local or central governments. Infrastructure investments in the EU showed moderate growth in 2023 of 3.2%, and it's estimated to be 1% in 2024. The subsector benefits from needed investments in the energy transition, especially for new power grids and digital infrastructure. Opportunities also arise in the field of drinking water, as population growth and climate change lead to more frequent dry periods in many places; we need more waterworks!

Infrastructure companies remain optimistic

Developments in the EU confidence indicator

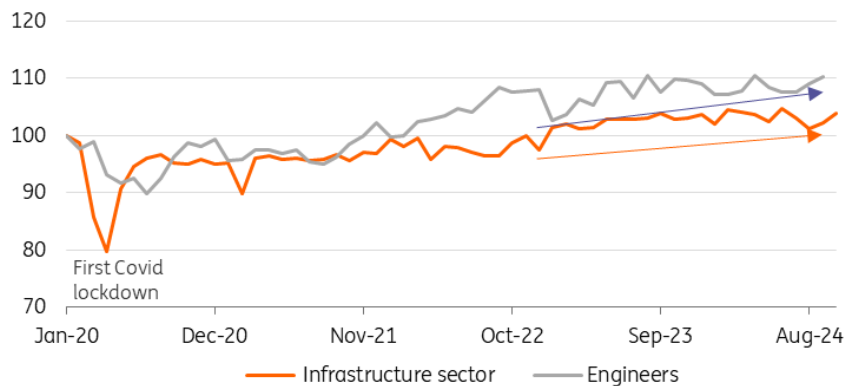


Source: European commission, ING Research

Engineering developments are another growth indicator in the infrastructure sector. It's upstream in the value chain and provides direction for infrastructure investment. Engineering companies were creating increasing volumes at the end of 2024. We, therefore, also expect that the infrastructure sector will perform positively in 2025 and 2026. It's the only sector where the producer confidence indicator is positive.

Engineering and infrastructure sector go hand in hand

Development EU Construction sector volume (Index January 2020=100, SA)



Source: European commission, ING Research

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

EU funds encourage growth of infrastructure sector

In Poland, substantial investments in road infrastructure bolstered growth in 2023, but that came to an end in 2024. Additionally, several previously delayed railway projects are anticipated to start off in the coming years, further driving progress. The execution of numerous planning projects will be fostered by removing the access restrictions by the European Commission that blocked the utilisation of allocated EU funds. Yet, it took some time before some of these projects materialised. So, we're confident that although Poland's infrastructure sector declined in 2024, it will pick up again in 2025.

EU country construction developments at a glance

Germany: zero growth after four years of decline

In December 2024, German contractors were the most pessimistic among major EU countries. A continuing drop in building permits for new residential projects in Q3 2024 highlights ongoing difficulties. The number of issued permits has been cut in half since the beginning of 2022.

On a positive note, the civil engineering sector in Germany has shown some improvement. In 2024, there was a slight uptick in activity. The country's infrastructure needs an upgrade, and investments in roads and digital infrastructure are contributing to growth in this area.










Yet, German construction volumes decreased by approximately 3% in 2024, and we expect no significant upturn in 2025. That means that the EU's largest construction market won't see growth (0%) for five years in a row.

France: marginal decline in 2025

We expect French construction output to decrease by 1% in 2025. In December 2024, French contractor sentiment was at its lowest level since the Covid crisis. In addition, 27% of French contractors were dissatisfied with their order books. The issuance of building permits for new houses has decreased by a third over the past two years. However, the decline is slowing and could gradually start to bottom out. A positive sign for the building of new houses is that the house prices of existing and new houses have started to increase again. This could support new developments as it makes new projects (more) profitable.

Construction Forecast

Volume output construction sector, % YoY

	2023	2024*	2025*	2026*
 Austria	-0.1%	-1.5%	1.0%	1.5%
 Belgium	0.4%	-1.0%	0.5%	1.0%
 France	-0.5%	-3.5%	-1.0%	1.0%
 Germany	-1.1%	-3.0%	0.0%	2.0%
 Netherlands	1.5%	-3.0%	1.5%	2.5%
 Poland	5.2%	-6.0%	1.0%	2.5%
 Spain	4.5%	1.5%	2.5%	2.0%
 European Union	1.3%	-2.0%	0.5%	2.0%
 Turkey	7.2%	5.0%	3.0%	3.0%

Source: Eurostat & ING Research (Turkey value added data)

*Estimates and forecasts

The Netherlands: Production volumes pick up again

[Dutch construction output](#) declined by around 3% in 2024. Yet, in 2025, there will be a recovery, mainly due to the upswing in newly built home production. Rising house prices, increasing sales of new houses, and better-filled order books are clear signs that Dutch housing construction is picking up again. However, there are still bottlenecks, such as a structural shortage of building land, financial feasibility, and grid congestion. Therefore, we expect moderate growth of 1.5% for the Dutch construction sector.

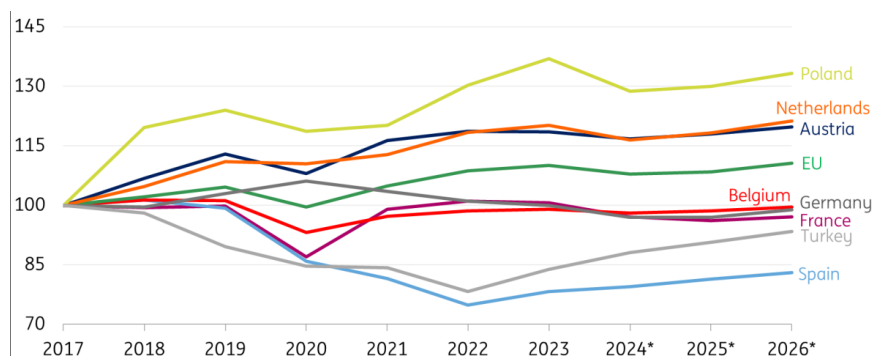
Spain: The construction sector is strongly recuperating

The Spanish construction sector grew by 1.5% in 2024, following a very strong 2023 (4.5%). However, Spanish contractors have faced a very difficult period. The production level shrank by 25% between 2019 and 2022. Yet, the growth initiated in 2023 and 2024 is expected to continue in the coming years. The Spanish construction industry will benefit from a strong-performing Spanish economy characterised by relatively high GDP growth. The issuing of

residential and non-residential permits is skyrocketing, and Spanish builders are positive about their order intake. Additionally, the EU's recovery fund investments in the Spanish construction sector are having a positive impact as well.

Strong development differences among countries

Volume construction sector (Index 2017=100)



Source: Eurostat & ING Research (Turkey value added data)

Poland: decline in 2024 but a better outlook for 2025

The [Polish construction sector](#) declined by 6% last year. All subsectors contributed to this drop. In the infrastructure sector, many projects under the previous EU financial perspective ended and the startup of new EU-financed projects will take some time. We already see a small improvement in October and November 2024 compared to the previous month.

Polish building permits for residential buildings are on the rise again after reaching their lowest level at the beginning of 2023. Prices for newly built and existing houses are still increasing which makes new developments more profitable for developers. However, this also means that fewer people can't afford to buy a house anymore. Polish contractors are less pessimistic about their order intake at the end of 2024. We don't expect a large rebound in Polish construction in 2025 but a moderate growth of 1%.

Turkey: further growth after a long period of decline

The Turkish construction sector grew by approximately 5% in 2024; this after another strong growth figure in 2023. However, the volumes haven't recovered after five years of continuous decline (2018-2022). In December 2024, the Turkish construction confidence indicator (EC survey) was still negative and builders were still not satisfied with their order books. In addition, many Turkish contractors complained about low demand. Yet, the issuance of building permits increased in Q3 2024 but they're following a bumpy road. Almost two years after the devastating earthquake, reconstruction is slow. The rebuilding of almost 700,000 houses will take some extra years and it requires large government investment. All in all, we expect the Turkish construction sector to grow further this year and next but at a lower pace than in 2024.

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