

Article | 3 March 2026

MANUFACTURING, CONSTRUCTION AND RETAIL

Why we expect higher profit margins in European construction

Despite lower construction activity and rising building material and wage costs, European builders have kept margins stable for some years. If energy prices remain moderate despite the Middle East conflict, we expect further profit gains as capacity constraints increase



If energy prices remain moderate, tighter capacity should support further profit gains

As economists, we tend to focus primarily on production volumes – how much a sector produces, builds or delivers. Profitability often receives less attention, even though it is just as crucial for understanding a sector's underlying strength. In this article, we take a closer look at that side of the narrative for the European construction sector.

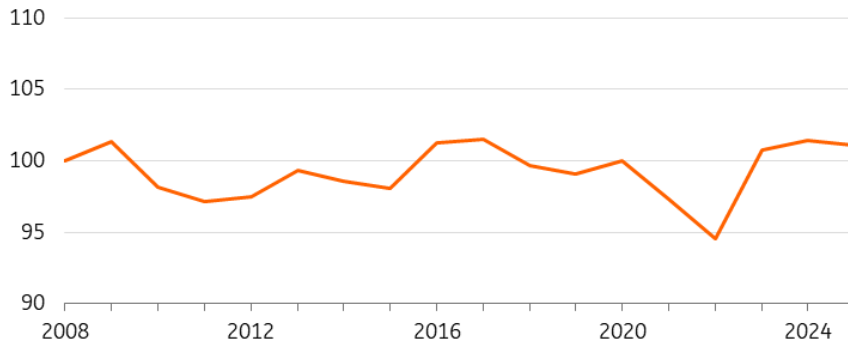
Construction margins more or less stable since 2008

Unfortunately, reliable data on total profit margins in the European construction sector is hard to find. Therefore, we use the gross operating surplus (the value added that remains after paying for labour and intermediate inputs) as an indicator. The graph below shows that this margin has broadly been stable during the last 15 years (besides a temporary setback in 2022 during the energy crisis). Despite shifting market conditions, cost pressures and cyclical ups and downs, the sector's underlying profitability has shown remarkable resilience in the long

run.

Construction profit margins stable

Development profits* construction companies in Eurozone, Index 2000=100



Source: Oxford economics, ING Research

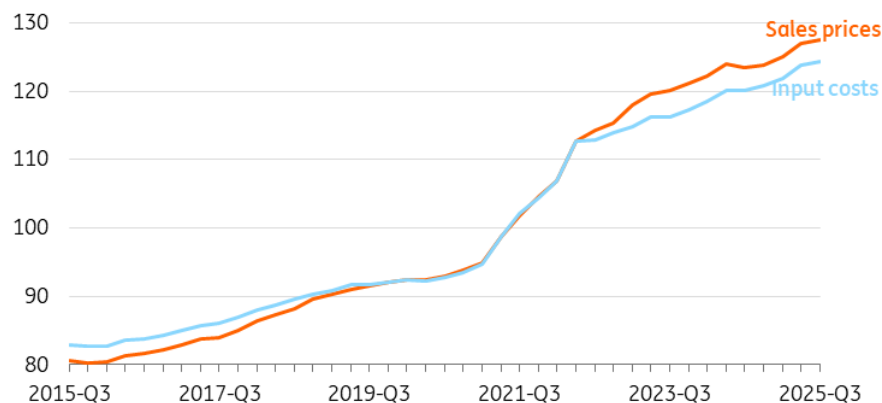
*Gross operating surplus as a share of gross output

Contractors can pass through higher input costs

Developments in the residential market support our observation. Since 2015, the costs of building materials and wages for new homes have risen by over 40%. However, during this period, contractors have managed to raise their sales prices by an even greater margin, resulting in a modest improvement in profit margins.

Sales prices outpace building costs

Development prices, new residential buildings EU-6 unweighted (Index 2021=100)



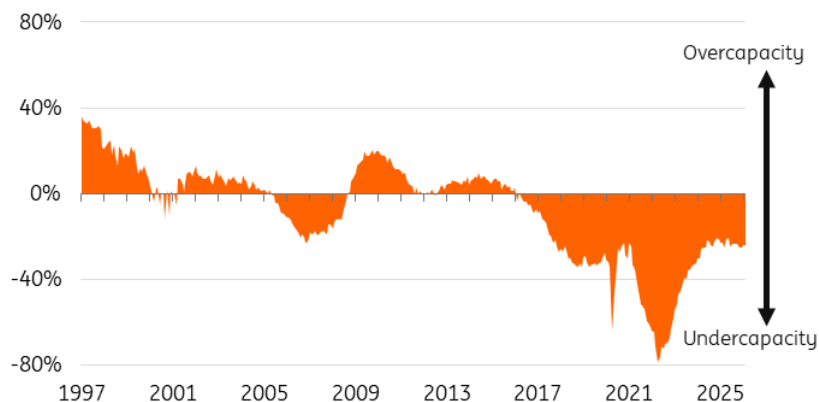
Source: Eurostat, ING Research

Overcapacity has disappeared

Margins have always been thin in the construction sector, which means that contractors almost always have to pass through higher input costs where possible, otherwise projects will end in a loss. In addition, contractors have a somewhat stronger competitive position than many years ago as the overcapacity has diminished and, now, there is even undercapacity. For instance, labour shortages have increased significantly in recent decades. At the beginning of 2026, 27% of the European contractors complained that a shortage of staff was limiting their production level. This reduces competition and gives companies more opportunities to raise sales prices.

Undercapacity in construction sector

Undercapacity or overcapacity in the EU constructions sector*



Source: Eurostat, ING Research

*Calculated as factors limiting the production: insufficient demand +/- (shortage of labour + shortage of materials + financial constraints + others)

Three reasons profit margins have not increased significantly

Despite the undercapacity in the construction sector, profit margins have not experienced substantial growth for the whole industry. Several factors contribute to this outcome:

- Stronger pricing power and higher sales prices have largely been offset by rising input costs;
- Although pricing power has increased, the construction market remains highly fragmented and competitive. Even in a supply-constrained environment, contractors often have limited opportunity to expand profit margins;
- Many clients, such as local and central governments, operate within fixed budgets for building and infrastructure projects. As project costs rise, the number of feasible projects decreases, leading to reduced construction volumes

and pressure on profit margins.

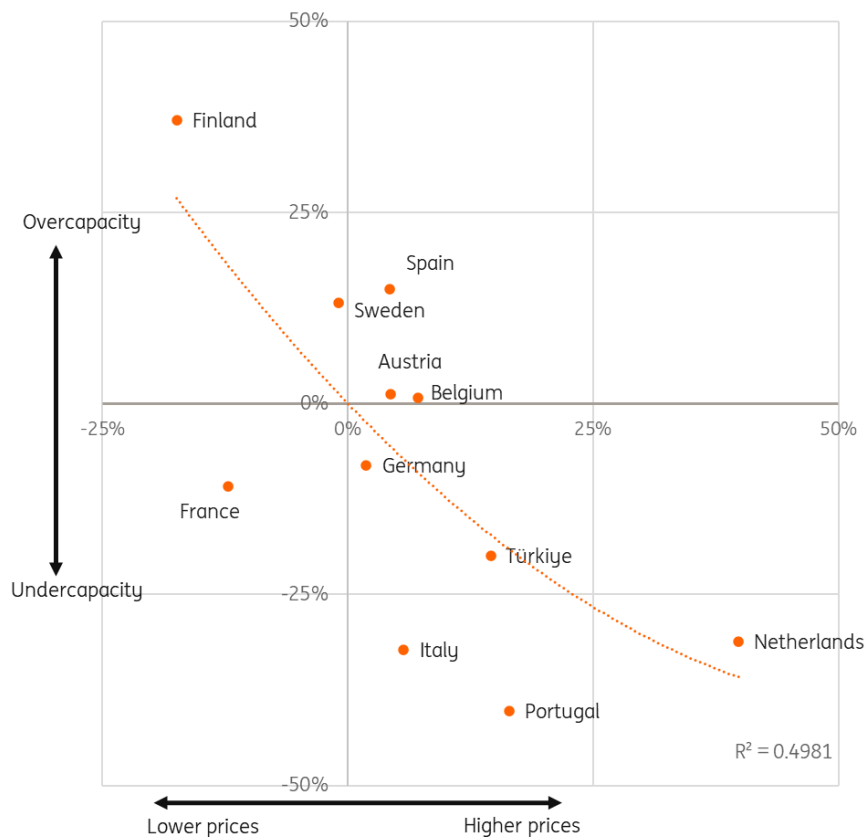
Tight capacity conditions are pushing prices upward

The level of undercapacity or overcapacity varies among EU countries. In Portugal and [the Netherlands](#), undercapacity is significant, while in Finland and Spain, there is still overcapacity. This leads to more contractors seeking to raise sales prices in the former two countries. Conversely, in Finland, the majority of companies are forced to decrease their prices. As we can see in the graph below, there is some correlation, but it is not very strong. In other words, this factor plays a role, but it is not the whole narrative. Other factors also influence price increases.

This includes, for instance, higher input costs that must be passed on; in the Netherlands, input costs have increased by 44%, whereas in Finland, they have risen by only 23% over the past 10 years. Therefore, Dutch contractors need to pass higher procurement costs onto their sales prices for new projects to remain profitable.

Undercapacity partly explains higher prices

Sales price expectations and calculated capacity contractors in 2025



Source: Eurostat, ING Research

Profit margins of large companies are slowly improving

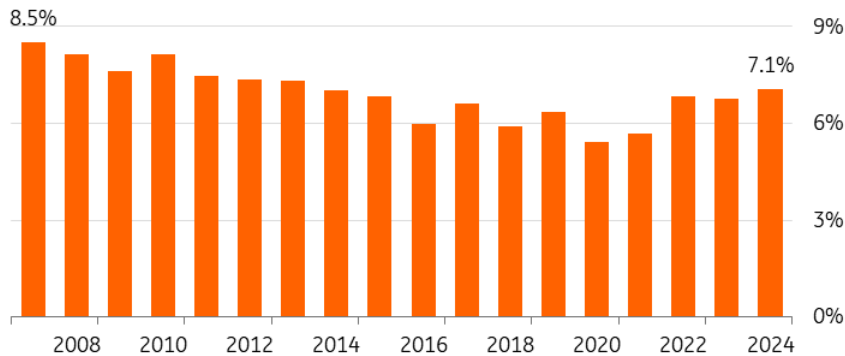
For larger companies, we see that profit margins have increased during the last few years. In 2018, the average EBITDA margin was 5.9% and this increased to 7.1% in 2024. Not all large companies have published their annual results for 2025 yet. However, it looks like many large contractors have seen an increase in their EBITDA margins last year. For instance, Heijmans, Skanska and Strabag all recorded a higher profit margin.

We observe three main reasons for these developments:

- Large companies have become much more risk-averse when taking on major projects. For instance, BAM, Vinci and Eiffage explicitly mention in their annual reports that they avoid risky projects;
- In addition, they no longer accept fixed-price mega-projects, in turn reducing their exposure to significant financial risks;
- Large firms are investing more in [industrialisation](#) and [digitalisation](#), which allows them to achieve cost advantages. Due to their scale and financial resources, they are able to implement these strategies more effectively than smaller companies.

Profit margins are recuperating but not back at previous levels

EBITDA margin as a % of the revenue of 30 large construction companies



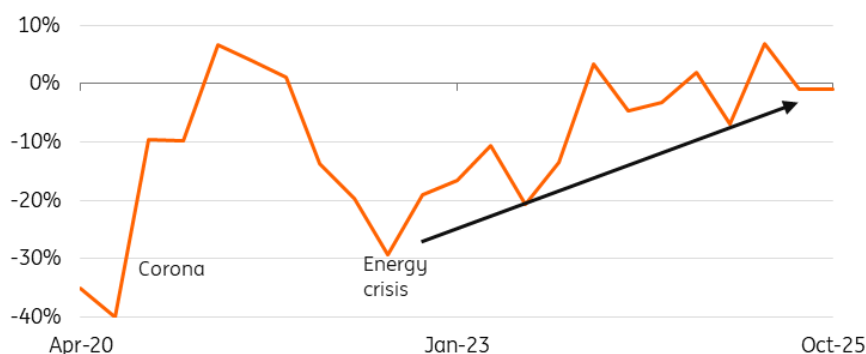
Source: Capital IQ, ING Wholesale Banking & ING Research

But profit margins haven't reached previous levels

Profit margins of large contractors have not returned to the levels seen during the 2007–2012 period. The cost base remains structurally higher than before 2020 due to significant price increases in recent years, especially during the energy crisis, as the production of many [building materials is highly energy-intensive](#). In addition, production volumes in 2025 are still below those of the 2008–2012 period. Lower volumes make it more difficult to cover annual fixed overhead costs, which also may reduce profit margins.

Profit expectations are improving

Expectations profit margins European constructors, balance of companies that expect an increase-/decrease of the profit margin in 12-months



Source: RICS, ING Research

Room for margin improvement

Overall, we expect that profit margins of construction companies will improve in the coming

years. Over the past two years, contractors have grown more optimistic about the development of their expected profit margins. Even with the current energy price hikes due to the conflict in the Middle East, we [do not foresee comparable price hikes](#) for building materials that occurred in 2022 and 2023. These were exceptional due to the energy crisis. While contractors were able to (partially) pass these costs onto clients, the sharp increases also negatively impacted their profits.

What's more, [construction volumes](#) are expected to rise further, leading to more undercapacity allowing contractors to raise sales prices. Undercapacity will also give contractors greater flexibility to select projects carefully, allowing them to reject risky, low-margin assignments.

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