

Press release

Construction industry in Germany and Europe by 2026

End of negative trend in construction activity in sight

8. November 2024

- Civil engineering segment continues to expand
- Little prospect of recovery in new residential construction
- Individual larger country markets seeing a decline

While the coronavirus pandemic only briefly interrupted the prolonged upward trend in the European construction industry, the consequences of the war in Ukraine are preventing further growth in the medium term. In 2026, the construction volume is expected to fall just short of the 2022 figure. The reasons for that include the general economic slowdown, the temporary jump in interest rates, the considerable loss of purchasing power, and the sharp rise in construction costs. There are also diverse country-specific factors that additionally affect the individual markets, such as state building subsidies. At the BAU information talks on November 7 and 8, 2024, Ludwig Dorffmeister, ifo industry expert for construction and real estate, presented the latest figures for construction activity.

According to the 2024 summer forecast, European construction activity will fall by a total of 4% in the 2023/24 period, but only increase by 3% thereafter until 2026. The civil engineering segment will continue its expansion undeterred (+7.8%). According to industry expert Ludwig Dorffmeister, one reason for this is “that sufficient public and private funds can still be mobilized for the extensive investment needs of the transport and energy infrastructure.” In his comments, Dorffmeister also explained: “Despite the mixed economic outlook, non-

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residential construction is expected to at least grow moderately (+2.7%), although the pre-pandemic level remains out of reach.”

Little prospect of recovery in residential construction

Residential construction, which accounts for almost half of all construction projects in Europe, shrank overall by a tenth in 2023 and 2024 (new construction: –18%). The chances of a significant recovery in the coming years are considered to be low (–4.3%), hence the approval forecast being accordingly cautious. The expiry of an extremely generous subsidy measure for building renovation in Italy is pushing the entire existing building sector into the red. Excluding Italy, renovation measures in 2026 would be 4.2% higher than in 2023.

Strongest growth in Poland

Hidden behind minimal growth in the European construction volume of 0.3% between 2024 and 2026 are very different developments at country level. In Poland, for example, construction output is expected to increase by 15.2% by 2026 compared to 2023. It is followed by Ireland (+9.5%), the Czech Republic (+8.3%), Sweden (+8.0%), and Norway (+7.6%). An increase of 6.1% is forecast for the heavyweight UK. In fact, the medium-term construction forecasts for most countries are positive. At the same time, however, the markets in the three major countries Italy (–6.7%), Germany (–4.1%) and France (–4.0%) are on a downward trend, preventing a more favorable overall picture.

Non-residential construction in Germany remains at 2023 level

In Germany, the construction volume climbed by almost 13% between 2014 and 2020. The positive economic conditions, strong immigration and the resulting increase in the demand for housing, the favorable financing environment, efforts to modernize residential buildings, and the government’s commitment to improving transport infrastructure led the market to a 21-year high.

The recession triggered by the pandemic subsequently slowed demand for new non-residential buildings. Investment in existing public and commercial buildings continued to decline in recent years, which was probably due, among other things, to the changed geographical focus of many companies and the limited scope of

municipal budgets. However, non-residential construction will complete its correction phase in 2024 and, despite the many structural problems (e.g. energy costs, bureaucracy/regulation, supply of skilled workers), grow again slightly in 2025. Gains in purchasing power, normalized inflation, cheaper external financing once again, and a certain amount of pent-up demand should make that possible. According to the 2024 summer forecast, construction activity in this segment in 2026 will be roughly on a par with 2023 – but 6% below the 2020 figure.

Civil engineering segment continues to expand

Civil engineering also experienced headwinds in the current decade, which largely prevented further growth. It is uncertain whether the originally forecast increase in civil engineering services of 4% in the period from 2024 to 2026 will remain. Of positive note are the investment efforts of telecommunications and energy supply companies, as well as the further intensified renewal of Germany's national rail network – with the aid of government funds. At the same time, the financing of transport projects – especially from the public sector – is becoming increasingly challenging. For example, the municipal budget situation deteriorated considerably in 2023, and the fiscal deficit is likely to increase again in 2024.

No imminent trend reversal in new residential construction

Although the existing building sector is developing fairly robustly and will grow again in the medium term, residential construction remains the major headache. That is due to the slump in demand for new construction as a result of the abrupt turnaround in interest rates, the explosion in construction prices, and the sharp reduction in subsidies for new construction. The inflation shock triggered by the war in Ukraine also significantly reduced the financial leeway of German private households. The number of approved residential units in one- and two-family houses will more than halve between 2022 and 2024. The situation is only slightly better for the construction of multi-family homes. Although gains in purchasing power, falling interest rates, an easing on the property market, and continuously rising rents will make residential construction projects more attractive again in the medium term, the immense cost burden due to a host of (government) regulations remains the major issue and does not favor a short-term trend reversal. In 2026, the volume of

residential construction is expected to be 14% lower than in 2021 (new construction: -41%).

Further information: ifo.de/en / bau-muenchen.com

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