

Industry trends

Construction

Civil engineering drives industry, while economic conditions still weigh on residential construction activity



Global overview

The global construction industry is facing modest growth in 2024.

We expect global construction output to increase by 2.0% in 2024 (up 3.7% on 2023). Growth in advanced economies is predicted to be 1.8%, while building activity in emerging markets will likely increase by 2.2%. China's ongoing real estate turmoil and downgraded investment profiles are weighing on global construction prospects.

Materials and labour costs remain high in many economies, which has led to pressure on margins and reluctance to commit to building projects.

Global residential construction is forecast to level off in 2024. High interest and mortgage rates are squeezing household budgets and reducing demand. Demand for housing is likely to remain sluggish until wider economic conditions improve and central banks start to decrease interest rates.

Infrastructure projects drive demand

Non-residential output and civil engineering are expected to increase by 2.8% and 4.4% respectively this year. Governments worldwide continue to champion major infrastructure projects to bolster their economies as other areas struggle amid tighter monetary policies. In 2025 we forecast global construction to grow 1.8%. Residential construction output is expected to rebound by 2.4%, as economic conditions should improve, and looser monetary policies start to take effect.

Industry performance forecast

| Europe | | Asia and Oceania | | Americas | | <p>Excellent The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.</p> <p>Good The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.</p> <p>Fair The credit risk situation in the sector is average / business performance in the sector is stable.</p> <p>Poor The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.</p> <p>Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.</p> |
|----------------|-------------|------------------|-------------|----------|--|--|
| Austria | Netherlands | Australia | Philippines | Brazil | | |
| Belgium | Poland | China | Singapore | Canada | | |
| Czech Republic | Portugal | Hong Kong | South Korea | Mexico | | |
| Denmark | Slovakia | India | Taiwan | USA | | |
| France | Spain | Indonesia | Thailand | | | |
| Germany | Sweden | Japan | UAE | | | |
| Hungary | Switzerland | Malaysia | Vietnam | | | |
| Ireland | Turkey | New Zealand | | | | |
| Italy | UK | | | | | |

Industry trends

Construction

| Output per region | 2022 | 2023 | 2024* | 2025* |
|----------------------|------|------|-------|-------|
| North America | -5.1 | 1.8 | 3.5 | 2.9 |
| Asia-Pacific | 2.1 | 6.3 | 1.7 | 0.6 |
| Europe | 2.1 | 1.7 | 1.0 | 2.5 |
| Middle East / Africa | 4.4 | 2.5 | 2.7 | 3.3 |

| Global output per subsector | 2022 | 2023 | 2024* | 2025* |
|-----------------------------|------|------|-------|-------|
| Construction total | 0.6 | 3.7 | 2.0 | 1.8 |
| Residential | 0.8 | 0.5 | 0.0 | 2.4 |
| Non-residential | 1.0 | 5.5 | 2.8 | 1.4 |
| Civil Engineering | 0.4 | 6.8 | 4.4 | 1.5 |

Year-on-year, % change /*forecast – Source: Oxford Economics

Strengths and growth drivers

Fiscal support. The Infrastructure Bill in the US, Recovery and Resilience Facility in the EU, and China’s fiscal support of infrastructure projects will drive building activity.

Sustainability. There is increasing investment and demand for renovation or upgrades to improve energy efficiency and to comply with tighter environmental standards.

Emerging markets. Growing urbanisation continues to drive demand for new housing.

Constraints and downside risks

Competitive environment. In most markets competition is intense, profit margins are thin and public buyers often pay late. There is a higher proportion of business failures than most other industries.

Labour shortage. A lack of skilled workers can increase wage costs and is a serious issue in many advanced markets. This could become a major structural problem in Europe in the mid-term.

Sustainability. The sector accounts for a whopping 36% of the world’s energy use and 40% of CO₂ emissions. There is pressure on construction firms to reduce their environmental impact.



Construction outlook Americas

| Construction output | 2022 | 2023 | 2024* | 2025* |
|---------------------|------|------|-------|-------|
| Brazil | 7.1 | 0.4 | 1.6 | 2.6 |
| Canada | 1.1 | -2.1 | -1.9 | 2.0 |
| Mexico | 2.9 | 3.5 | 2.5 | 3.2 |
| United States | -6.8 | 1.1 | 4.4 | 3.5 |

Year-on-year, % change /*forecast – Source: Oxford Economics

USA

Residential construction rebound gains momentum in the course of 2024.

We expect US construction output to increase 4.4% in 2024. For both non-residential and civil engineering output the momentum of 2023 is expected to carry over into this year, with output forecast to expand by 6.9% and 10.5% respectively. The non-residential subsector continues to be driven by several large manufacturing projects, while civil engineering activity will benefit from the Infrastructure Investment and Jobs Act.

After a 7.5% contraction in 2023, residential construction is forecast to grow by only 0.1% this year. This segment has been negatively affected by the significant increase in interest rates over the past year as the Fed combatted inflation. Higher borrowing costs and mortgage rates have discouraged potential homebuyers.

In 2025 we expect US construction output to increase 3.5%. While residential building and civil engineering growth will cool down, we expect a 5.2% rebound in residential construction, given monetary easing gains momentum in H2 of 2024.

Overall resilient, but some issues remain

The industry as a whole remains resilient, despite pressure on profit margins due to higher interest, materials, and labour costs. One notable weakness is the management of working capital. Some businesses are holding high levels of inventory and accounts receivable, which is placing pressure on their operating cash. This could potentially lead to liquidity constraints if they cannot secure adequate external financing from lenders.

| Industry performance forecast | |
|-------------------------------|---|
| | Brazil |
| | Canada |
| | Mexico |
| | USA |
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Construction outlook Asia Pacific

| Construction output | 2022 | 2023* | 2024* | 2025* |
|---------------------|------|-------|-------|-------|
| China | 2.5 | 7.1 | 1.7 | -0.2 |
| India | 8.6 | 10.6 | 1.2 | 2.6 |
| Japan | -6.2 | 4.1 | 1.5 | 0.3 |
| South Korea | 0.7 | 3.2 | 0.3 | 1.8 |

Year-on-year, % change /*forecast – Source: Oxford Economics

China

Woes in the property sector drag down sector growth.

We expect Chinese construction output to grow only 1.7% this year and to contract 0.2% in 2025. The turmoil in the property sector is still ongoing after investment decreased 9.6% in 2023. Residential construction output is forecast to contract 0.5% in 2024 as financial issues for property developers continue to constrain activity. There is a significant excess supply problem, and unwinding this will require cleaning up the sector's large existing inventory overhang and the excess leverage of property developers. Currently it seems that the sector is shifting to a more social housing focused approach, with the government taking a more active role.

The non-residential building and civil engineering segments are expected to increase by 3.4% and 4.1% respectively in 2024. Civil engineering activity will be driven by public investment in strategic sectors like EV charging and renewable energy.

Japan

Subdued long-term prospects.

After a 4.1% increase in 2023, construction output growth is forecast to slow down to 1.5% this year. This is mainly due to a growth slowdown in both the non-residential and civil engineering segments. Homebuilders continue to work through their backlogs of residential projects, which will lead to a 2.4% growth in this subsector.

In the long-term, Japan's construction sector will be severely affected by demographics. The population has already begun to decrease, and the percentage of people older than 65 is expected to rise steadily throughout the rest of the decade. As most demand for new houses tends to come from working age population, the growing proportion of elderly people over 65 will drag on residential construction activity.



Industry performance forecast

| | |
|--|---|
| | Australia |
| | China |
| | Hong Kong |
| | India |
| | Indonesia |
| | Japan |
| | Malaysia |
| | New Zealand |
| | Phillippines |
| | Singapore |
| | South Korea |
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Construction outlook

Europe

| Construction output | 2022 | 2023 | 2024* | 2025* |
|---------------------|------|------|-------|-------|
| France | -0.3 | -1.0 | 0.6 | 1.7 |
| Germany | -3.1 | 0.3 | 0.7 | 2.8 |
| Italy | 10.8 | 0.2 | 0.8 | 2.7 |
| United Kingdom | 6.8 | 2.0 | -1.8 | 2.1 |

Year-on-year, % change /*forecast – Source: Oxford Economics

Eurozone and UK

Rebound strongly depends on monetary easing.

Construction in the Eurozone is forecast to grow only 0.7% in 2024, as the economic rebound will be modest and interest rates are still high. Current activity is sustained by a backlog of work and EU-funded public projects to increase energy security/efficiency. Given a monetary easing in Q2 residential building should start to recover, and we expect construction output to increase 2.4% in 2025. However, material costs will remain higher than in the past, and labour shortages continue to grow. Credit risk for construction businesses has increased in most European markets.

Germany: Construction activity will increase only 0.7% in 2024, after growing 0.3% last year. A sluggish industrial outlook is weighing on demand for non-residential construction. Residential construction is suffering from increased interest rates and high labour and material labour costs, leading to cancellation of many orders.

France: Construction activity will increase 0.6% in 2024, mainly sustained by civil engineering in relation to the summer Olympics and infrastructure building. However, sluggish residential building activity will weigh on the sector as interest rates remain high in the near-term.

Italy: Civil engineering is expected to expand by 3.1% in 2024, supported by EU funding for energy security, power grid and transportation improvements. However overall construction activity will grow only 0.8%, as residential construction will contract 0.2% due to increased input prices and high interest rates.

United Kingdom: Construction output is forecast to decrease 1.8% in 2024, with residential building contracting 3.3%. High interest rates have increased the cost of financing projects, which is feeding through into mortgage rates and weighing on affordability. Labour constraints are a serious issue. The cancellation of the northern section of HS2 poses a downside risk to the civil engineering outlook.



| Industry performance forecast | |
|-------------------------------|---|
| | Austria |
| | Belgium |
| | Czech Republic |
| | Denmark |
| | France |
| | Germany |
| | Hungary |
| | Ireland |
| | Italy |
| | Netherlands |
| | Poland |
| | Portugal |
| | Slovakia |
| | Spain |
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