Article | 5 October 2026 REAL ESTATE MANUFACTURING, CONSTRUCTION AND RETAIL

Europe’s construction sector faces a period of weak growth

Europe’s construction volumes will keep growing but remain subdued. Infrastructure investment and Germany’s gradual rebound are drivers, while higher financing costs and geopolitical risks cap momentum. Housing permits have stabilised, signalling that a stronger residential recovery will have to wait



Europe's construction sector is showing signs of stabilising, but growth remains modest

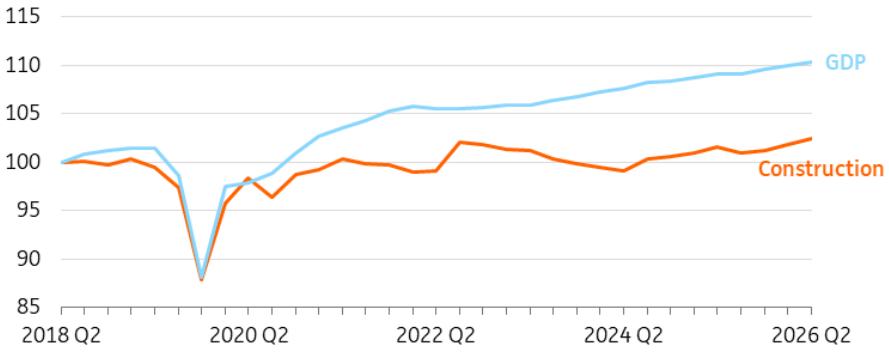
Low growth returns in 2026

We expect EU construction output to grow by a marginal 0.5% in 2026, following a 1.8% decline in 2024 and 2.3% growth in 2025. More broadly, EU GDP has outpaced construction output in recent years, showing that the construction sector has lagged the broader economy.

The positive signals seen in early 2025 have since weakened. By September, the EU construction confidence indicator had stopped improving and had fallen below its level a year earlier. Nevertheless, the EU economy has remained surprisingly resilient despite higher energy prices, rising interest rates and greater geopolitical uncertainty. Increased defence and infrastructure spending, together with Germany’s cyclical rebound, is partly offsetting the headwinds.

EU construction lags GDP growth

Volumes, Index 2018 Q2 = 100



Source: Oxford economics, ING Research

The building sector has declined, while infrastructure has grown

The building sector, comprising residential and non-residential construction, remains a weak spot. Higher interest rates and construction costs, combined with economic uncertainty, are making households and businesses more cautious about investing in new property. By contrast, some segments stand out more positively. Specialised construction has benefited from renovation and sustainability projects, while infrastructure investment, supported by EU funds and spending on energy and digital networks, has provided an additional offset.

EU construction forecast

Volume output construction sector, % YoY

	2024	2025	2026*	2027*
Austria	-2.0%	-0.1%	0.0%	1.0%
Belgium	-1.2%	0.2%	-0.5%	0.5%
France	-3.9%	-3.5%	-2.5%	-1.5%
Germany	-3.2%	-1.8%	1.0%	2.0%
Netherlands	-1.1%	1.9%	0.0%	1.0%
Poland	-7.7%	0.0%	0.0%	2.0%
Spain	2.6%	4.0%	3.0%	2.0%
European Union	**-1.8%**	**2.3%**	**0.5%**	**1.0%**
Turkey	10.2%	11.9%	-1.0%	3.0%

Source: Eurostat, *forecasts ING Research

Following five consecutive years of contraction, **Germany's** construction sector is expected to grow again in 2026. Europe's largest construction market shrank by more than 10% between 2020 and 2025. We expect a modest recovery this year, with growth gradually gaining momentum in 2027, supported by housing and infrastructure.

In 2025, **France's** construction output fell by 3.5%, followed by quarter-on-quarter declines of 1.2% and 0.9% in the first two quarters of 2026. French sector confidence weakened further, while housing permits in August remained below their level a year earlier. Combined with sluggish GDP growth, this points to a 2.5% contraction in 2026.

Spain's construction sector is still recovering. After losing more than 25% of its output between 2019 and 2022, the market began to rebound in 2023. We forecast growth of 3% in 2026. Building permits have risen sharply in recent years, although momentum is easing. Contractor confidence is easing from a very high level in recent months. Even so, robust GDP growth should support construction this year and next.

For the **Netherlands**, we expect construction output to stabilise in 2026 after a weak first half, followed by modest growth in 2027. Housing construction should gradually recover as the recent rise in building permits feeds through into starts and completions, although projects are often delayed and the recovery will remain limited. Infrastructure remains an important driver.

Poland's construction sector had a volatile start to 2026, with output falling by 6.8% in the first quarter due to the cold winter before rebounding by 8% in the second. Building permits are rising slightly, confidence remains stable and robust GDP growth of 3.4% should support demand. The resumption of EU funding is also expected to support infrastructure investment. Nevertheless, we expect construction output to remain flat in 2026, largely because of the weak first quarter, followed by modest growth of 2% in 2027.

Input prices are marginally increasing

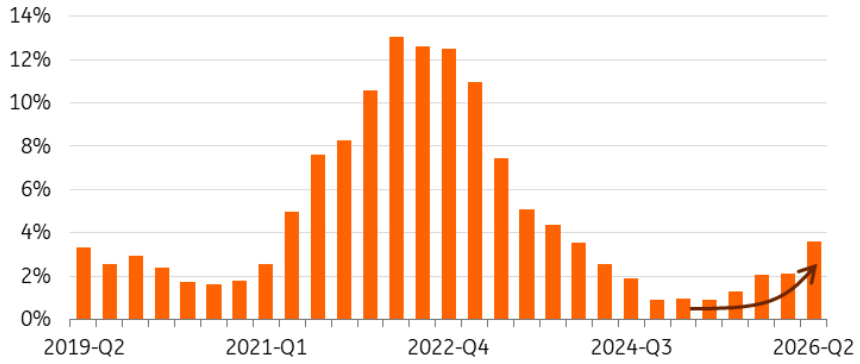
Higher energy prices are pushing up production costs for energy-intensive materials such as concrete, cement and bricks. Even so, material prices are generally rising only gradually. In September, 13% of EU producers planned to raise selling prices over the next three months, compared with 11% in January, before the Iran war.

Passing higher input costs through the value chain is also becoming harder. Governments, non-residential investors and homebuyers already face higher interest rates, making further cost increases more difficult to absorb.

Contract terms may also pose a risk for contractors. Public price-adjustment schemes are often too limited to absorb shocks, while countries without them, such as Spain, face greater exposure. Private contracts offer even less protection, increasing the risk of disputes, delays and halted projects.

Building costs higher but increases remain benign

Development building prices EU-27, new residential buildings, quarterly yoy



Source: Eurostat, ING Research

Low water levels are delaying deliveries

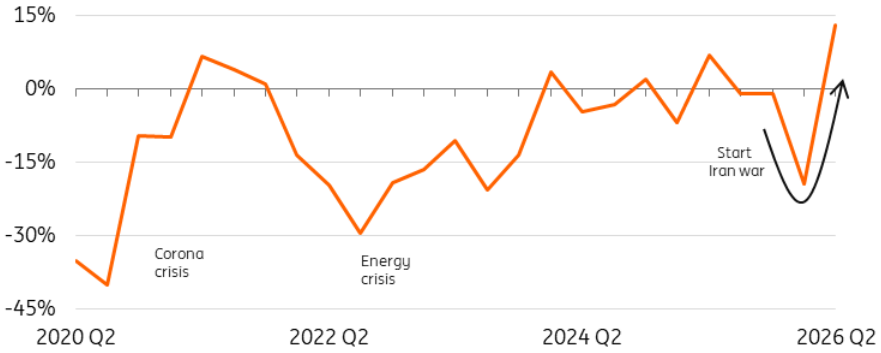
Low water levels are creating upward cost pressure on building materials. Many raw materials used in building materials, such as sand, gravel and chemicals, are transported by inland waterways. When river levels are low, barges can carry less cargo, which increases transport costs and delays deliveries in the construction supply chain. The impact has remained limited but is slowly increasing. In September, 8% of EU construction companies reported production constraints due to material shortages. This is above the 5.7% in January and the 6.4% recorded during the low-water period in September 2018.

Profit confidence rebounds, but energy risks return

Higher energy prices and the prospect of rising building-material costs initially alarmed construction companies, which feared a sharp hit to profit margins in the first quarter of 2026. As the Iran war continued, however, gas prices rose less dramatically than during the 2022 energy crisis. Confidence recovered, and second-quarter profit expectations exceeded pre-war levels. This rebound may prove excessive, as energy prices have since begun rising again.

Profit expectations are up again

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



Source: RICS, ING Research

Residential growth stalls

Between summer 2024 and the end of 2025, the number of building permits issued in the EU rose by approximately 15%. Since then, however, permit issuance has broadly stabilised, suggesting that momentum has faded in recent months. Several factors may explain this development:

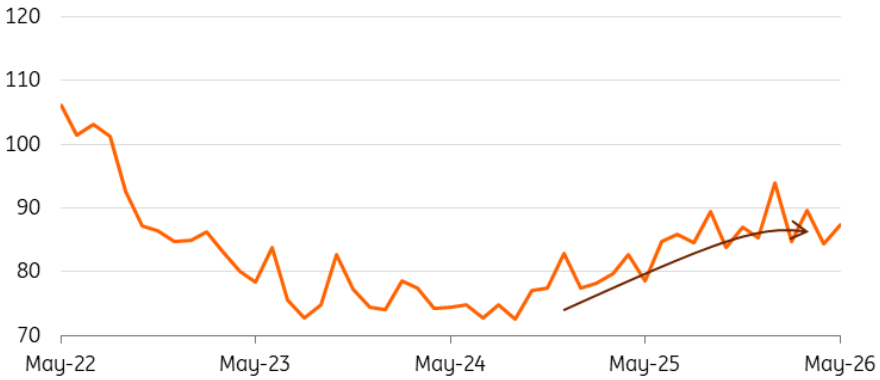
- Higher interest rates make homes less affordable, particularly new builds, because buyers often have to finance payments during construction.
- The conflict in the Middle East has heightened geopolitical uncertainty. This may make buyers more reluctant to purchase a home, especially a new build, because completion can take up to two years. The longer waiting period increases uncertainty compared with buying an existing home.
- Higher energy prices have increased the cost of energy-intensive building materials, although the rise in overall construction costs has so far remained modest.

One possible offset is that buyers may prefer new homes because they are generally more energy-efficient than existing properties. However, the stabilisation in permit issuance suggests that this advantage is not strong enough to drive further growth.

The number of permits issued for new houses is an important indicator of future volumes in the residential sector. Typically, it takes between one and two years from the granting of a permit to the completion of a new home.

Recovery of issued building permits slows

EU Building permits new dwellings, SA (index 2021=100



Germany follows the broader European recovery after a particularly sharp fall in housing permits in 2021 and 2022. The government's 'housing construction turbo' (Bau-Turbo) aims to speed up planning and approvals in high-demand areas. Its impact, however, will depend on local authorities, which may hesitate over loss of control and legal uncertainty.

The permit data for **France** at the beginning of the year looked promising. However, the second quarter was disappointing. France expanded its zero-interest mortgage scheme (PTZ: Prêt à Taux Zéro) for new-build homes in April 2025 to support first-time buyers and boost housing construction, but the building permit data suggests the policy has yet to gain traction.

Dutch permits for new homes surged in the second quarter of 2026. Statistics Netherlands has since paused publication of recent data, saying the increase appears implausibly large and may reflect legislative changes related to grid congestion. Limited grid capacity continues to delay new connections and construction projects, while nitrogen restrictions cause further setbacks. The government's plan to reduce nitrogen emissions of peak polluters and make way for other business activities is now under parliamentary review.

Spanish housing permits nearly tripled between 2020 and 2024, largely reflecting a rebound from the exceptionally low pre-pandemic era base and a recovery in housing demand. Growth now appears to have peaked, with permits falling by almost 2% in the second quarter of 2026. The government's PERTE programme, co-financed through European recovery funds, aims to speed up and reduce the cost of housing construction through prefabrication and modular methods, but its impact will take time.

Business case still difficult

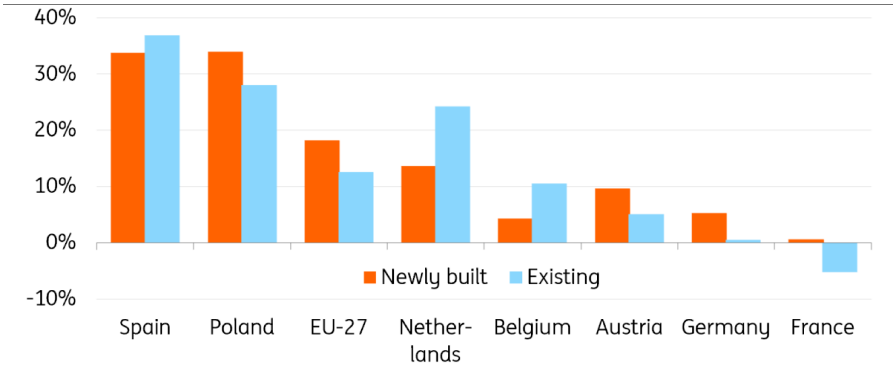
Housing shortages remain severe in many European cities, but new housing projects are more difficult to make commercially viable in some countries than in others. Although permit issuance has increased in many markets, construction costs remain high. Builders and developers often cannot fully pass these costs on to buyers, especially where existing homes are still cheaper than a few years ago. As buyers can choose between new and existing homes, relatively higher new-build prices are likely to push many towards existing properties.

This is particularly true in France, Germany and Austria, where existing-home prices have risen

less than the European average. In France, they remain even below their levels three years ago. Builders and developers therefore have very limited (or no) scope to pass on higher material costs, leaving many projects unprofitable at current market prices. As a result, they are postponing construction until conditions improve.

Existing and newly-built house prices by country

House price developments 2026 Q2 compared to 2023 Q2



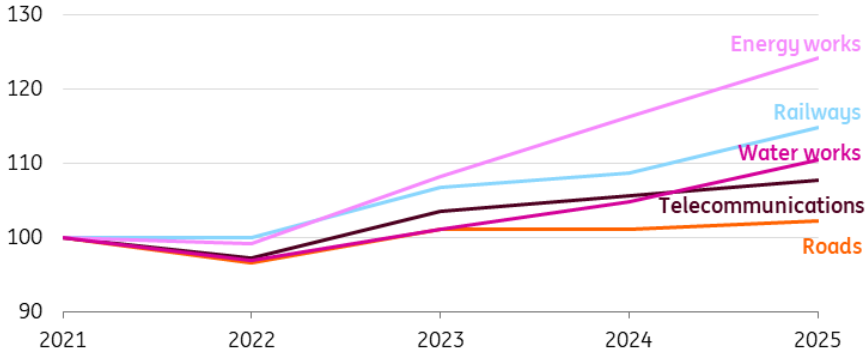
Source: Eurostat, ING Research

Infrastructure growth continues

EU infrastructure output grew by 2.2% in 2025. Growth slowed in the first seven months of 2026 to around 0.4% year-on-year. A relatively cold, wet winter across many European regions temporarily disrupted activity at infrastructure sites, though the sector recovered some of the lost ground in the following months.

Highest growth in energy works

Infrastructure subsectors EU-19, Index 2021=100



Source: Euroconstruct, ING Research

The EU **energy construction sector** has been growing since 2022, driven by investments in

renewable energy and electricity grid expansion. Growth is expected to remain strong as many countries in the EU continue to upgrade power infrastructure to support the energy transition and rising electricity demand.

Railway construction is showing strong growth. Across the EU, activity is being supported by both network renewals and major cross-border projects. Examples include Rail Baltica, which will connect the Baltic States with Poland, the Lyon–Turin rail link between France and Italy and high-speed rail investment in Spain, Portugal and Italy. Together, these projects illustrate the EU's drive to expand rail capacity.

Telecommunications construction has grown modestly in recent years, supported by fibre-optic expansion and continued investment in 5G networks across the EU. Although coverage is improving, progress varies widely between member states and significant investment is still needed to extend high-capacity networks, particularly in rural and other lagging areas.

Roadworks, which account for around 30% of EU infrastructure output, remain under pressure as many local and regional authorities face budget constraints. Across the EU, public funding is competing with other investment and spending priorities, limiting the resources available for road construction and maintenance.

Overall, Europe's construction recovery will remain slow and uneven. Infrastructure investment and a gradual German recovery will provide support, but high financing costs, weak housing economics and geopolitical risks will limit momentum. For now, infrastructure will do most of the heavy lifting within the sector.

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