

Industry trends – Construction

Tariff-related economic uncertainty still weighs on commercial construction activity

February 2026



Global overview

Emerging economies drive acceleration in construction output in 2026

After increasing 1.4% last year we expect global construction output to grow by 2.3% this year. Growth in advanced economies is predicted to increase by 1.5%, while building activity in emerging markets will rise by 3.1%. The domestic nature of the construction market and relatively regionalised supply chains mean that construction has been more insulated from US tariffs and global trade uncertainty than other industries.

However despite this, global trade issues have increased business uncertainty, leading to lower commercial construction spending in many countries. Many companies have delayed investment decisions until the outlook for the global trade environment becomes clearer, causing postponements and even cancellations of construction projects. Industrial building projects have been most affected due to their links to manufacturing and export markets. We expect non-residential construction growth to remain modest this year, at 1.6%, after a 1.3% increase last year.

Global residential construction output is forecast to increase by 2.6% in 2026 and 4.0% in 2027. The impact of interest rate cutting

cycles should be felt during the course of 2026, with lower rates alleviating some of the pressure on both demand and supply in the housebuilding market. However housing shortages in many developed countries will need to be addressed.

The global civil engineering sector will grow 2.5% in 2026, followed by a 3.7% increase in 2027. While fiscal consolidation in some countries affects infrastructure construction, others use fiscal expansion to build roads, railways, bridges, tunnels, and power grids etc. Governments across the globe plan to accelerate their green transition and provide more energy security, which will drive civil engineering output growth.

Labour shortages and construction material prices remain issues

Shortages of skilled construction labour and high labour costs are structural issues affecting many advanced economies. This is strongly impacting profit margins and delivery deadlines. Labour shortages and wage costs are particular issues for builders that work with fixed contract prices and are unable to pass on extra costs. After prices of construction materials surged throughout 2022–2023, construction firms hope that the downward pressure on prices continues. However, in general construction costs tend to be sticky; they can rise rapidly but are slow to retreat.

Industry performance forecast

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



Industry trends

Construction



Strengths and growth drivers

Fiscal support. Government plans across the globe to accelerate their green transition and deliver more energy security will drive the civil engineering sector.

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	2024	2025*	2026*	2027*
Brazil	4.3	0.9	1.3	2.8
Canada	-0.4	1.1	1.7	5.1
Mexico	2.9	-1.3	0.1	2.7
USA	4.9	1.6	1.5	3.2

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

USA

Modest growth expected in 2026

We expect US construction output to grow by just 1.5% year-on-year in 2026. Targeted tariffs on key construction inputs including steel, aluminium, and copper are disproportionately affecting the industry, which faces an additional effective tariff of 10% compared to the broader economy. The Producer Price Index for construction materials remains higher than before the recent inflationary period, while any additional tariffs could cause prices to rise again.

The construction labour market is tight. Project costs are rising to meet higher wages, negatively affecting companies that have a lot of fixed price contracts. The current policy to curb immigration and implement more deportations is exacerbating labour shortages in the industry. Illegal immigrants account for about 15% of the US construction workforce.

Recent interest rate cuts by the Fed are supporting construction activity but borrowing costs remain elevated for the time being. It is currently assumed that the Fed will pause before cutting interest rates again in June and September.

After a 0.4% contraction in 2025 residential construction output is expected to rebound by 2.5% in 2026. The decline in mortgage rates is driving a gradual thaw in the housing market, but at the same time an oversupply of apartments in some regions is prompting developers to delay building.

Non-residential construction is expected to contract by 2.2% this year after growing 1.1% in 2025. Despite recent agreements with China and other countries, the US trade policy continues to hamper and delay business investments in new factories or office buildings, with only the largest projects likely to proceed. The uncertainty is resulting in challenges for the industry with many firms reporting

difficulty in assessing project viability, with investors often pausing while awaiting further clarity.

Civil engineering performance remains robust, expected to grow by 5.4% in 2026 after a 6.1% increase in 2025. The subsector benefits from ongoing infrastructure investment and large megaprojects, especially tech data centres to fund the growth in AI demand. However, new civil engineering construction starts could be affected by budget constraints and another government shutdown.

Overall resilient, but some issues remain

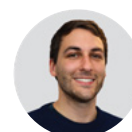
For the time being the US construction industry as a whole remains resilient, despite pressure on profit margins due to elevated interest, materials, and labour costs. We expect no deterioration of the sector's credit risk in the coming six months. The sector has historically operated with long payment times compared to other industries, and this is unlikely to change. This is because the cash flow crunch continues to intensify for certain businesses with heavy working capital needs and many are still paying high interest rates on their borrowing.

Some construction businesses are holding high levels of inventory and accounts receivable, placing pressure on cash flows. Despite profitable operations, this could lead to liquidity constraints if they cannot secure adequate financing from lenders.



Industry performance forecast

- Brazil** (Rain icon): The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
- Canada** (Rain icon): The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
- Mexico** (Rain icon): The credit risk situation in the sector is average / business performance in the sector is stable.
- USA** (Sun icon): **Excellent** The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.
- Good** The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.
- Fair** The credit risk situation in the sector is average / business performance in the sector is stable.
- Poor** The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend.
- Bleak** The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



Matt Nathan
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Construction outlook Asia Pacific

Construction output	2024	2025*	2026*	2027*
China	4.0	-0.9	2.0	4.3
India	8.7	7.4	4.4	4.8
Indonesia	7.0	4.5	8.8	5.7
Japan	-4.2	1.5	0.6	0.2

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

China

A modest rebound is on the cards

After a 0.9% contraction in 2025 we expect Chinese construction output to rebound by 2% in 2026. Residential construction has suffered from weak sentiment and ongoing financial problems, with the residential property sector decreasing by 1.7% last year. The government has provided mortgage rate cuts, eased restrictions on home purchase, and funded support for targeted property projects (e.g. social housing). As significant fiscal resources are likely to be allocated to the real estate sector, residential building is expected to rebound by 2.5% this year. If China's housing cycle follows typical global correction patterns, prices may have already completed two thirds of their downward adjustment since the 2021 peak. Further declines are possible before stabilisation around 2028.

Fiscal stimulus aims to rebalance the economy towards advanced, high-tech manufacturing. This is driving non-residential building, which is expected to grow 3.2%. The civil engineering outlook is also robust, accelerating after relatively subdued growth of 0.8% in 2026.

Sector credit risk is above average

The risk of payment delays and insolvency in construction remains above the industry average in China, especially for private contractors and real-estate developers. The latter are highly reliant on government support and will need access to financing channels such as commercial banks to help soften cash flow issues. Major state owned enterprises (SOEs) and groups are facing relatively low insolvency risks, due to their systemic importance to national economic policy and strong support from state-owned banks. However, insolvency risk remains elevated for regional SOEs, which are highly dependent on local governments' budgets and fiscal capacities. Both are under increasing pressure from Beijing amid tightening controls on local government debt.

Industry performance forecast	
	Australia
	China
	Hong Kong
	India
	Indonesia
	Japan
	Malaysia
	New Zealand
	Phillippines
	Singapore
	South Korea
	Taiwan
	Thailand
	UAE
	Vietnam
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	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



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Construction outlook Asia Pacific

India

Infrastructure investment drives growth

India's construction output is expected to increase by up to 4.4% in 2026 after growing 7.4% in 2025. Growth is mainly driven by government investment in infrastructure (roads and railways and industrial construction). Civil engineering output is expected to grow by 5.4% in 2026. The residential and non-residential buildings sectors are forecast to expand by an annual average of more than 6% from 2023 to 2032.

Despite the benign growth outlook, the sector is marred with issues. Delays, defaults and insolvencies are common due to overrunning projects. Payment delays are expected to persist, influenced by ongoing bureaucratic challenges and financial constraints. Public and Private Partnership projects, including roads, power and airports, face higher credit risk due to their long-term nature and the reliance on government payments. In particular subcontractors face the risk of elongated working capital cycles coupled with delayed payments from government entities. Due to their higher bargaining power the situation is better for large building corporates.

Southeast Asia

Public projects underpin construction expansion

Construction demand is stable in Southeast Asia, partly driven by the major role played by government projects to improve infrastructure and energy development. 2026 construction output figures for Indonesia, the Philippines, Malaysia and Vietnam are robust (about 6% annual increase on average).

Despite growth, construction industry margins are under pressure from competition and commodity prices. The industry is highly leveraged, often resulting in tight covenants or banking demands for secure collateral when seeking finance. Many markets, in particular Thailand and Vietnam, are experiencing an increase in payment delays and insolvencies, often caused by project delays and volatile materials pricing leading to liquidity shortages. In contrast, Singapore's construction industry credit risk is low, as the country holds the highest possible sovereign credit rating of AAA from Fitch, S&P and Moody's. In addition, the sector is supported by strong government infrastructure investments and a consistent pipeline of public projects.





Construction outlook Europe

Construction output	2024	2025*	2026*	2027*
France	-0.8	-1.5	0.0	1.3
Germany	-3.7	-4.4	1.4	5.5
Italy	0.3	3.3	1.1	0.3
United Kingdom	0.6	1.5	1.5	2.0

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

Eurozone and UK

Higher growth in 2026, but credit risk remains high

Construction activity across the eurozone is expected to increase by 1.6% in 2026 after growing 0.6% in 2025. Residential construction is forecast to grow 1.5% in 2026, supported by ECB interest rate cuts last year. Civil engineering output is forecast to increase 1.6% this year, but fiscal policies in many eurozone countries will tighten in order to reduce deficits, which will act as drag on infrastructure building in the coming years. Across the EU and the UK, material costs will remain higher than in the past, and labour shortages are structural. Both issues negatively impact margins of builders. Credit risk for construction businesses remains high in most European markets.

France

Political uncertainty weighs on the outlook

Construction activity will level off in 2026 after a 1.5% contraction last year. The industry currently lacks any major growth driver, and political uncertainty weighs on the outlook. Activity in the residential construction subsector remains subdued this year, expected to contract by 0.1%. Due to the lagged impact of past ECB interest rate cuts, we expect the housing sector to begin a sluggish rebound in mid-2026. Non-residential output is expected to grow by just 0.3% after a 2.5% contraction in 2025. The high fiscal deficit and uncertainty over the 2026 budget hamper government investment in infrastructure. Therefore, civil engineering will see a 0.1% contraction this year after a 2.5% decrease in 2025.

Due to the weak performance outlook the level of protracted payments and insolvencies will remain high in the coming months. This is partly due to the structure of the industry (which includes many small businesses with weak financials).























Germany

The effects of a large fiscal stimulus have still to materialise

Sector performance continues to be affected by Germany's feeble economic growth. Additionally weighing on the sector are complex approval processes and bureaucratic hurdles, along with increased prices for building materials and the ongoing shortage of skilled workers. After contractions in 2024 (-3.7%) and 2025 (-4.4%) we expect construction output to rebound modestly this year, by 1.4%. The financial leeway created by the government's special fund will only gradually take effect. So far, the stimulus has not been reflected in the construction industry's order books. In addition, existing order backlogs must be cleared before new measures can take effect. However, the growth curve is likely to steepen in the medium term.

Residential construction is forecast to grow by 1.1% in 2026 after steep contractions over the past two years. The increase in building permits in 2025 is a positive sign. Together with the effects of monetary easing, this suggests that investment will increase again. Both the civil engineering and non-residential building subsectors will be bolstered by the fiscal package. But labour shortages persist as a significant constraint. Without additional capacity, it will be difficult to implement the urgently needed infrastructure and construction projects at speed.

Despite the signs of a rebound credit risk remains high for the time being, in particular for small construction businesses. Many of them with tight liquidity have extended their payment terms. Payment behaviour remains tense, and the level of construction insolvencies is still high. Between January and October 2025, the number of insolvencies in the sector stood at 3,174, up 9.3% year-on-year.

Industry performance forecast	
	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
	UK
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	Bleak The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend.



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Construction outlook Europe

Italy

Still elevated insolvency risk

After growing by 3.3% in 2025, construction output growth is expected to cool down to 1.1% in 2026. Producer prices remain elevated, which impacts activity. Residential construction output will remain subdued, growing by 1.2% this year. However, rising investments in this segment indicate some recovery, although the performance will still be sluggish compared to civil engineering. The strong impetus provided by Next Generation EU funding has supported both non-residential building and civil engineering over the past couple of years. But as the programme expires this year and as fiscal consolidation is setting in, output growth in both segments will slow down compared to the strong increases seen in the previous two years.

Credit risk in the industry is high due to fluctuating demand, liquidity shortages, reluctance of banks to provide loans and long protracted payments. SMEs in the residential segment are affected by high competition, pressure on margins and liquidity tensions. The situation is somewhat better for larger builders active in the civil engineering subsector. However, in this segment exposure to late payments by public assignors (particularly for road and rail construction) is generating high DSO, which is usually passed on to suppliers. Between 2023 and 2025, the insolvency rate among Italian construction companies has shown a concerning upward trend. We expect insolvency risk to remain elevated due to structural weaknesses and ongoing financial strains.

United Kingdom

Building projects continue to be delayed

Uncertainty about government policies led to a decrease in construction demand in H2 of 2025. This year construction output is forecast to increase by 1.5% in 2026. Interest rate cuts are ongoing, but from a high point and will take time to flow through to improved building activity. Residential construction is set to increase by 3.5% this year. A combination of lower mortgage rates and several years of strong nominal earnings growth has reduced the scale of the mortgage affordability problem. The government announced to build 1.5 million new homes by 2030, but there are serious doubts that this target is achievable under current market conditions.

Recent increases in National Insurance Contributions and the national living wage impact the ability of construction companies to hire skilled workers (labour shortage is already a major issue). The increases also weigh on the profitability of UK businesses in other sectors, affecting their financial capacity to invest in buildings. Non-residential construction activity is forecast to contract by 1% in 2026. Infrastructure improvement remains a targeted area for the government, despite fiscal tightening. UK civil engineering output is expected to grow by 1.6% this year.

In the UK many new building projects continue to be delayed, due to legacy contracts, supply chain issues, price inflation, and delays in planning applications being approved. The rate of construction insolvencies peaked in 2024, at levels only comparable to the 2008 financial crisis. In the coming months we expect some improvement of the sector's credit risk situation, but market conditions remain challenging.

The Netherlands

Residential construction activity gains momentum

Construction output in The Netherlands is expected to rise by 2.5% this year and 4.5% in 2027. The sector's growth outlook is therefore positive, but serious issues remain. Labour shortages are a significant issue, and half of Dutch construction companies report production obstacles due to a lack of skilled workers and slow permit issuance. Due to higher inflation and input costs, margins of construction businesses have been squeezed, although on the whole most businesses still show profit. However, those are structurally low, mainly due to strong competition.

Residential construction output is accelerating, with the number of completed new homes expected to increase from 68,000 in 2025 to 80,000 in 2026 and 84,000 next year. This marks the first clear upswing for the sector in quite some time. Renovation and repair are recovering, following a dip caused by lower sustainability investment. In this segment, growth of 1.5% this year and 3.5% in 2026 is expected. Pressure remains in the non residential sector, as investments fell by 8% last year, with another 7% contraction expected this year. Infrastructure, by contrast, is benefitting from energy related works.





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