

Industry trends

Construction

Civil engineering drives industry, as economic conditions slows growth in residential construction



Global overview

The global construction industry is facing modest growth, the majority of which will come from non-residential output and building activity in emerging markets.

We expect global construction output to increase by 3.2% in 2023. While this may seem promising, growth in advanced economies will be very slow (up just 0.3% on last year). What growth there is will come from emerging markets (up 5.8%).

In addition to regional differences, there is a gap between residential and commercial projects. Residential construction is forecast to grow only by 1.1% in 2023 and 0.6% in 2024, with many advanced economies recording contractions this year. High interest and mortgage rates, along with high inflation, are squeezing household budgets and reducing demand. Materials and labour costs remain high in many economies, which has led to pressure on margins and reluctance to commit to building projects.

However, we expect non-residential output to increase 5% in 2023 and 1.7% in 2024. Civil engineering output is forecast to grow 5.6% this year and 3.6% in 2024. Governments worldwide continue to champion major infrastructure projects to boost their economy's productive potential.

Industry performance forecast

Europe		Asia and Oceania		Americas		
Austria	Netherlands	Australia	New Zealand	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	Philippines	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	Singapore	Mexico	Fair The credit risk situation in the sector is average / business performance in the sector is stable.	
Denmark	Slovakia	India	South Korea	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	Taiwan		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	Thailand			
Hungary	Switzerland	Malaysia	Vietnam			
Ireland	Turkey					
Italy	UK					

Industry trends

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Output per region	2022	2023*	2024*	2025*
Americas	-6.1	-1.6	2.2	4.6
Asia-Pacific	4.4	6.2	1.4	3.5
Europe	2.1	2.5	1.2	1.8
Middle East / Africa	3.4	3.6	3.7	3.2

Global output per subsector	2022	2023*	2024*	2025*
Construction total	1.0	3.2	1.7	3.3
Residential	0.8	1.1	0.6	4.1
Non-residential	1.0	5.0	1.7	2.6
Civil Engineering	0.7	5.6	3.6	2.8

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	-0.6	1.9	2.7
Canada	1.0	-2.2	-1.9	2.3
Mexico	0.3	2.3	3.4	3.0
United States	-10.4	-2.3	2.9	5.8

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

USA

We expect overall US construction output to contract 2.3% in 2023, with residential forecast to shrink by 9.1%.

Subdued economic growth prospects and high construction material costs are issues affecting the USA's construction sector. Monetary tightening and a shortage of skilled labour make building projects more costly to complete.

The residential construction sector is the worst hit, as homebuilder sentiment remains subdued. High mortgage rates, squeezed household budgets and a looming recession are weighing on demand for new housing and building projects. In summer 2023 mortgage applications were at their lowest since 1995, as the 30-year fixed mortgage rate climbed above 7%.

Civil engineering and the non-residential segment are set to grow by 1.8% and 7.5% respectively in 2023. This is in part due to the Infrastructure Investment and Jobs Act, which directly supports construction activity, while a number of large manufacturing projects and health-care related projects support the non-residential subsector.

The growth should start to pick up for the sector next year. We expect the US construction output to rebound by 2.9% in 2024, driven by further growth in the civil engineering (up 5.9%) and non-residential building segments (up 4.6%). That said residential construction activity will remain subdued (down 0.2%)

Industry performance forecast

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	Canada
	Mexico
	USA
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Construction outlook Asia Pacific

Construction output	2022	2023*	2024*	2025*
China	5.0	7.2	1.1	4.3
India	8.6	10.0	1.6	3.0
Japan	0.2	5.3	0.1	0.2
South Korea	0.7	3.3	0.0	0.0

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

China

We expect Chinese construction output to increase by 7.2% in 2023, mainly due to state-driven stimulus measures.

The Chinese government is focusing infrastructure investment in strategic sectors like EV charging and renewable energy. This will help drive growth and we forecast civil engineering activity supporting these areas to increase 8.6% in 2023 and 3.6% in 2024.

However, there are ongoing issues in the real estate sector. Although residential construction is forecast to grow 6.4% this year, this is largely thanks to policy support. Activity is currently focused on completion of existing housing projects, but investment and new housing projects have started to decrease. Tighter regulation of property developers' finances could affect expenditures in the future. In 2024 we expect residential building to contract 0.4%, and overall Chinese construction output to grow only 1.1%.

Japan

Construction output is forecast to increase by 5.3% in 2023, as both residential and infrastructure activity recover after 2022 contractions.

After delays and postponements last year, homebuilders continue to work through their backlogs of residential projects. However, construction activity is expected to slow down to 0.1% in 2024 among increasing input costs, which could affect builders' margins.

Industry performance forecast

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Construction outlook Europe

Construction output	2022	2023*	2024*	2025*
France	-0.3	-1.1	0.7	0.7
Germany	-3.1	1.6	1.3	2.7
Italy	10.9	2.3	0.5	1.7
United Kingdom	6.2	2.5	0.5	1.7

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

Eurozone

Government investment in the construction industry will support output growth of 1.8% in 2023.

Civil engineering is forecast to grow 5.8% this year, driven by the NextGenerationEU recovery plan. However, tighter credit conditions weigh on private investment and credit availability, while labour and material costs remain elevated. This will be felt most keenly in the residential subsector where construction growth will stagnate in 2023 and 2024, although non-residential construction will also slow down in the coming months. We expect no real rebound

of eurozone construction output in the coming year, with the industry growing only 1.1% in 2024.

Construction output in France is forecast to shrink 1.1% in 2023 as residential building contracts. In Germany we expect a 1.6% increase after a 3.1% contraction last year due to infrastructure improvement. However, residential construction is suffering under the weight of increased input prices and higher interest rates. In Italy output will increase 2.3%, driven by civil engineering growth (up 6.5%), while residential building activity will contract 0.5%.

UK

We expect construction output to increase 2.5% in 2023, but to slow down to 0.5% in 2024 as tight monetary policies increase financing costs of projects.

Looking ahead, residential construction is expected to contract 1.6% in 2024. However, the UK government has allocated more than GBP 600 billion for infrastructure investment over the next five years, which should help to prop up the industry.



Industry performance forecast

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	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
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