Managing risk, enabling trade

Construction Industry Outlook 2025/2026

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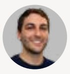
Our Trade Sector Specialists

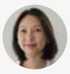
Leon Barendsma Manager Risk Services, Atradius Netherlands (Amsterdam)

Leon is a Risk Services Manager based in Amsterdam. He has a high level of knowledge about the construction sector and is currently responsible for the Atradius Manufacturing and Construction portfolios in the Netherlands. During his ten years with Atradius he has worked in a variety of risk-focused positions. Leon has previously also worked as Credit Risk Manager at the fintech export finance company, Stenn Technologies.



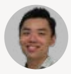
Matt Nathan Underwriter Atradius USA (Baltimore)

Matt is an Underwriter based in Baltimore. After a completing a successful internship in 2017, Matt returned to Atradius to take on a full-time position in the Spring of 2021. His primary area of expertise and current focus is the construction industry, including construction materials. However his remit has touched other areas and he is also building experience in sectors such as livestock, cereal and grains, and commodities such as furniture.



Mon Razak Senior Underwriter Atradius Australia (Melbourne)

Mon is a Senior Underwriter at Atradius. Based in Melbourne she has worked with Atradius for 16 years, and currently manages the Construction portfolio for Australia and New Zealand. Her expertise also extends across a wide span of sectors and businesses and includes analysing a range of businesses (SMEs to multinational corporations), relationship management to coaching and managing of junior credit professionals. Mon is a member of the Australian Institute of Credit Management (ACIM).



Shane Tan Associate Senior Underwriter at Atradius Asia (Singapore)

Shane is an Associate Senior Underwriter at Atradius Asia, a position he has held since 2021. Based in Singapore, he is currently responsible for the Food, ICT, Rubber and Scientific Instrument sectors in Singapore, Malaysia and Philippines. Prior to Atradius, Shane worked as Credit Manager in the Credit Operations department of Daimler Financial Services. This position included underwriting construction buyers, project management and management reporting.

Global: More modest growth predicted for construction in 2025

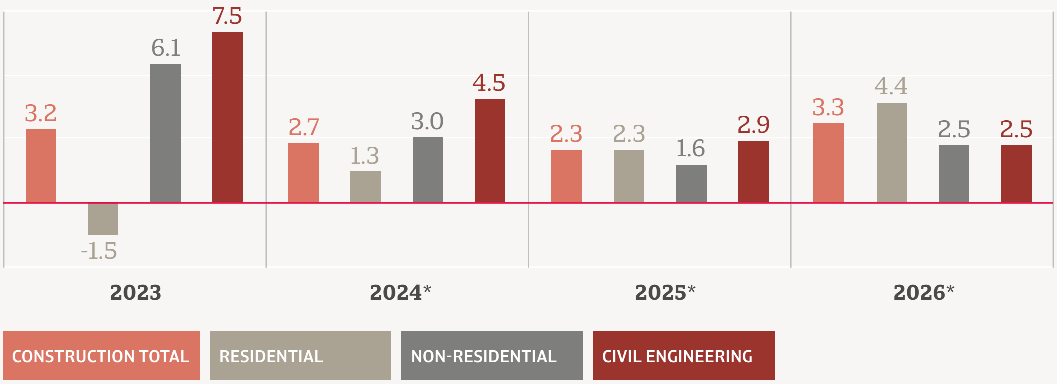
Despite the ongoing challenges in China's real estate sector and high interest rates continuing to impact mortgage rates in Europe and the US, the outlook for the industry is not all doom and gloom. We expect to global construction output to increase by 2.3% in 2025 and by 3.3% in 2026.

Of course, we can't ignore the fact that China's ongoing real estate turmoil and downgraded investment profiles are weighing on global residential construction prospects. In Europe and the US high interest and mortgage rates have squeezed household budgets and reduced demand last year.

However, falling inflation and recent interest rate cuts will begin to alleviate some of the pressure. The lagged impact of interest rate cuts means that the uplift in activity will be slow to begin with, gaining momentum in H2 of 2025.

Civil engineering and non-residential building saw robust growth in both 2023 and 2024 (see chart below). Both segments benefited from the willingness of governments worldwide to champion major infrastructure projects and industrial policies in a bid to boost their economies. However, growth rates will be lower in 2025 and in 2026, as the impact of austerity measures in certain countries continues to be felt.

Global construction output



Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Construction industry performance and outlook: Americas

Canada: Residential construction about to recover

Matt Nathan, Underwriter Atradius USA (Baltimore) said: "Interest rate cuts and tamed inflation are a positive sign for Canada's construction industry. This comes on the back of a challenging time for the industry." Construction output decreased by 1.6% in 2024, but should rebound 1.0% this year and grow 2.3% in 2026. Past interest rate hikes have had a lagged effect on housing and business investment.

Civil engineering is forecast to contract by 2.3% in 2024 and by 0.3% in 2025, caused in part by low government incentives. Prices for construction materials are still elevated. Lack of skilled construction labour is a lingering problem. However, after contractions in 2023 and 2024 we expect the residential construction segment to grow by 2.8% in 2025, as the negative effect of high mortgage interest rates should begin to subside.

Mexico: Good long-term projections

Mexico's construction growth will slow down in 2025 and 2026, following robust growth rates in 2023 and last year. Public investment, the driving force behind the strong expansion, will weaken following the completion of several projects. Payment delays have increased in the sector.

Matt added: "Despite the current slowdown, longer term projections are pointing to average annual real growth of 2.6% year-on-year between 2026 and 2033. Investments in nearshoring should benefit industrial construction in the coming years."

Canada construction output

	2023	2024*	2025*	2026*
Construction total	-1.4	-1.6	1.0	2.3
Residential	-10.1	-1.6	2.8	4.7
Non-residential	-1.0	1.5	2.3	3.6
Civil Engineering	4.0	-2.3	-0.3	0.5

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Mexico construction output

	2023	2024*	2025*	2026*
Construction total	15.4	6.0	1.7	1.8
Residential	-12.5	5.1	4.2	2.7
Non-residential	19.3	6.2	1.5	1.6
Civil Engineering	15.6	6.8	-1.0	1.0

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

United States

Non-residential construction and civil engineering drive US sector growth

We expect US construction output to increase 3.6% in 2025 and 4.4% in 2026. Strong public investment, continued easing in financial market conditions, and the strength of the labour market will help the economy grow at a similar rate to last year. Matt Nathan explained: “The growth momentum is driven by robust activity in the non-residential and civil engineering segments. The non-residential subsector is supported by several large manufacturing projects, while civil engineering will benefit from the Infrastructure Investment and Jobs Act.”

He added: “Residential construction has been negatively affected by the significant increase in interest rates in 2023 and into 2024 as the Fed combatted inflation. Higher borrowing costs and mortgage rates have discouraged potential homebuyers. That said, as the interest rates will come down and mortgage rates with it, the outlook for the medium term is improving. However, the large federal budget deficit could impact federal spending on construction in the mid-term. For US construction there is an upside risk for growth rates, depending on how quickly and aggressively the Fed cuts rates.”

Will cash flow pressures heighten credit risk?

Matt said: “US construction businesses are highly dependent on bank credit, and gearing in the industry is high. Ultimately banks remain open to lending and very few of the companies I have reviewed have had issues renewing and extending their bank facilities.”

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.

He noted: “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. However, I do not foresee a further significant deterioration in protracted payments in the coming 12 months, especially as interest rates are easing. There is likely to be an uptick in construction insolvencies in 2024, but after that no real deterioration is expected.”

However, Matt cautioned: “The same cannot be said for the solar-related construction segment. I fully expect rising payment delays and insolvencies. It’s still adjusting to major changes in regulations and incentives that took place in 2023, specifically in California, which is the nation’s largest residential solar market.”

As long as interest rates remain elevated, the benefit of solar becomes less appealing relative to the cost of financing it. Residential installers have been hit the hardest from the changing regulatory landscape. Matt added: “The Republican Party enjoyed a sweep in the US elections in November. It is likely that with a fully Republican controlled government incentives, subsidies and projects in the solar space will contract under the new administration. First signs of this became apparent after amount of publicly traded renewable energy companies dropped meaningfully following the election results.”

Matt Nathan

> “As the interest rates will come down and mortgage rates with it, the outlook for the medium term is improving.”

US construction output

	2023	2024*	2025*	2026*
Construction total	-2.3	4.6	3.6	4.4
Residential	-13.7	4.1	3.2	6.0
Non-residential	10.9	4.3	2.0	0.5
Civil Engineering	5.7	5.8	9.9	6.8

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Construction industry performance and outlook: Asia Pacific

Asia Pacific is a construction industry powerhouse, accounting for 45% of the world's construction output. Much of this comes from emerging Asia, where urban migration is driving massive demand for new housing and services.

This demand is likely to last for a while. For, despite significant urbanisation over the last two decades, less than 70% of China's population lives in cities, indicating there is considerable scope for more movement into the major centres.

Infrastructure is needed to support the growing urbanisation and is now driving growth in the civil engineering segment in emerging Asia. This is less pronounced in the region's advanced economies, where typically around 80% of the population already live in urban environments.

Australia

Public projects drive Australian construction growth

Construction output in Australia will increase by 1.3% in 2025 and 1.7% next year, driven by demand from the mining sector and by government spending on infrastructure projects. In their 2024-25 Budget, the Australian Government committed AUD 16.5 billion for railway and road projects. Schools and healthcare facilities are also a target of public investment, creating additional growth potential.

However, residential construction is still affected by elevated interest rates, which have dampened buyers' borrowing appetites. Delays and high costs also resulted in fewer additions to the housing stock last year. In the short term, residential buildings construction should benefit from several government schemes, such as the First Home Loan Deposit (FHLD) scheme.

Can Australia's construction industry pay its bills?

"Extending credit terms to Australia's construction industry was a high-risk strategy for many suppliers last year", said Mon Razak, Senior Underwriter Atradius Australia (Melbourne). Construction companies made up more than 25% of the record 11,049 corporate collapses in the financial year July 23-June 24. Soberingly, this number is expected to rise in FY25.

She added: "The residential segment is the most vulnerable, but we see insolvencies in all of the subsectors. One primary driver is that the Australian Taxation Office is pursuing debts that were previously put on hold during the Covid pandemic. This includes more than AUD 34 billion in debts owed by small businesses and self-employed, many of which are in the construction sector. This debt recovery action is likely lead to a higher number of insolvencies in the next 12-24 months."

The profit margins of construction businesses have tended to be thin in the residential construction segment in recent times, due to inflationary pressures and the cost of high interest rates.

> "The residential segment is the most vulnerable, but we see insolvencies in all of the subsectors."

Many also face legacy fixed-price contracts signed prior to increases in materials pricing. However, margins are expected to improve as new contracts are signed with appropriate pricing. In another positive sign, interest rates are expected to decrease in the coming months.

Australia construction output

	2023	2024*	2025*	2026*
Construction total	3.2	0.0	1.3	1.7
Residential	-1.6	-1.9	0.4	2.5
Non-residential	7.3	4.1	1.3	3.1
Civil Engineering	9.1	0.1	2.9	-4.5

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Mon Razak

China

Property sector turmoil continues, although growth is forecast

The turmoil in the property sector is still ongoing after investment decreased 9.6% in 2023. 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. Nevertheless, residential construction output is expected to grow by 1.8% in 2025 and 5.3% in 2026. Currently the sector is shifting to a more social housing focused approach, with the government taking a more active role. Central government has released a series of policies to boost the domestic construction industry.

Shane Tan, Associate Senior Underwriter at Atradius Asia, said: "We expect Chinese construction output growth of 3.6% in 2024, with a slowdown to 0.8% in 2025. The central government has enhanced the investment in infrastructure to offset the negative impact of the depressed real-estate sector and has provided greater backup to local construction projects to alleviate local governments' tight cash position."

Shane Tan

> "Project delays and volatile material prices are leading to liquidity shortages in South East Asia."

Are payment delays more likely in construction than other sectors in China?

The risk of payment delays in construction is above the industry average in China, especially for private contractors and real-estate developers. Payment defaults and insolvency risks are also elevated.

However, we expect construction insolvencies to decrease by as much as 10% in 2025 following the rollout of a new stimulus package in September 2024. This is aimed at improving sales and allowing more funding conditions to support the liquidity of construction companies.

China construction output

	2023	2024*	2025*	2026*
Construction total	7.1	3.6	0.8	3.7
Residential	5.4	2.9	1.8	5.3
Non-residential	6.3	3.9	1.7	5.3
Civil Engineering	10.1	4.7	-1.1	0.4

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Shane noted: "Despite these policies, the property sector is still exposed to higher credit risk than the infrastructure sector. China's real-estate developers are highly reliant on government support and will need access to financing channels such as commercial banks to help soften cash flow issues which, together with the high leverage, may lead to a sudden bankruptcy (like we saw with the China Evergrande Group.)"

By contrast, infrastructure companies in China tend to be state-owned enterprises and find it easier to access funding from banks and from subsidies. Insolvency risks for this segment is lower.

India

Infrastructure investment drives construction growth in India

India's construction output is expected to increase 8.1% in 2024 and 3.1% in 2025. This is mainly driven by investment in infrastructure and industrial construction, including the government's ambitious investment in roads and railways. Civil engineering output is expected to grow by 13.9% in 2024 and 4.1% in 2025. The residential and non-residential buildings sector is forecast to expand by an annual average of more than 6% from 2023 to 2032.

The industry should also benefit from increased investment by companies aiming to diversify supply chains and adopt a China-Plus-One strategy. Growth in the residential construction segment will be driven by fiscal support aimed at completing unfinished housing projects and a focus on affordable housing in urban areas. The government has recently announced INR 10 trillion (EUR 110 billion) on urban housing construction over the next five years.

Will payment delays negatively impact India's construction industry?

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 high credit risk due to their long-term nature and the reliance on government payments, which can be delayed. Payment delays in the Indian residential sector are expected to decrease due to high demand.

India construction output

	2023	2024*	2025*	2026*
Construction total	9.7	8.1	3.1	3.5
Residential	5.8	1.9	2.7	4.2
Non-residential	12.3	14.4	2.4	-0.6
Civil Engineering	14.6	13.9	4.1	5.2

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

South East Asia

Public projects underpin construction growth

Construction demand is stable in South East Asia, partly driven by the major role played by government projects to improve infrastructure and energy development. Annual construction output figures 2024-2026 for Indonesia, the Philippines, Thailand and Vietnam are robust (see chart on the right). In Singapore, the state accounts for approximately 55% of construction demand, comprising public housing, railways, ports and terminals.

Why is credit risk high in some South East Asian markets?

Shane Tan explained: "Despite growth, construction industry margins are under pressure from competition and steel prices. The industry is also 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 prices leading to liquidity shortages. In contrast, Singapore's construction industry credit risk is low. Contractors dealing in large infrastructure projects are usually joint ventures by international corporations.

South East Asia construction output per market

	2023	2024*	2025*	2026*
Indonesia	4.9	6.9	8.9	6.2
Malaysia	6.0	17.9	8.2	6.7
Philippines	8.8	7.0	11.1	9.1
Singapore	5.3	3.0	2.9	4.5
Thailand	-1.1	3.4	14.3	1.6
Vietnam	7.1	6.9	4.8	5.0

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Construction industry performance and outlook: Europe

Leon Barendsma is Manager Risk Services, Atradius Netherlands (Amsterdam). He said: “We expect EU construction to output to have decreased by 1% in 2024, due to the lingering impact of tight monetary policies and only a modest economic recovery.”

Residential construction output contracted by 3.5%. With the support of the Next Generation EU recovery plan (with its focus on energy security and efficiency in buildings and infrastructure), 2024 civil engineering growth is expected at 2.6%. The credit risk for construction businesses has increased in most major European markets.

Leon Barendsma

> "Credit risk for construction businesses has increased in most major European markets."

EU construction output

	2023	2024*	2025*	2026*
Construction total	2.1	-1.0	1.3	2.1
Residential	-1.8	-3.5	0.6	2.1
Non-residential	4.1	0.3	1.5	2.2
Civil Engineering	8.6	2.6	2.3	2.0

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

In 2025 and 2026 we expect a modest rebound of 1.3% and 2.1% respectively for EU construction output, driven in part by further interest rate cuts. Leon said: "Residential construction is one of the most interest rate sensitive sectors in the economy and should benefit from any policy loosening, albeit with a lagged effect. Another growth driver should be green transformation projects, of which many will have an infrastructure aspect. However, austerity in highly indebted countries could hamper larger public investment in infrastructure, impacting civil engineering growth."

France: Modest growth is overshadowed by weakening investment

After a 2.8% contraction in 2024, growth in the French construction industry will pick up, albeit modestly in 2025 (up 0.4%) and 2026 (up 1.3%). The economic outlook remains muted, affected by fiscal policy issues and lower business and consumer sentiment. This will be reflected in construction investment, which is expected to contract 3.9% in 2024 and 0.9% in 2025.

As Leon explained: "Margins are generally low in the French construction sector, and many businesses have suffered in recent years from higher raw materials prices. Given the ongoing difficult business conditions, banks are reluctant to provide credit to construction businesses."

He added: "The level of protracted payments and insolvencies is high and is expected to increase in the coming months. This is partly due to the structure of the industry (many small businesses with weak financials), but we are currently also seeing increasing credit risk among larger players."

France construction output

	2023	2024*	2025*	2026*
Construction total	2.2	-2.8	0.4	1.3
Residential	-1.6	-6.5	-0.5	1.3
Non-residential	4.7	0.5	1.3	1.4
Civil Engineering	9.6	1.6	1.1	1.0

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Germany: Challenging conditions and high rates of insolvency cast shadow over sector

German construction output is expected to contract 2.7% in 2024, after a modest 0.2% growth in 2023. Demand for construction has decreased in all segments, with the exception of infrastructure and energy transformation. Many projects have been postponed or cancelled due to high costs. We expect no rebound before H2 of 2025, with growth only 0.1% for the full year, and profits decreasing further (-1.9%). Residential construction will remain flat, while non-residential and civil engineering should grow 0.3% and 0.8% respectively. The latter will benefit from the government investment in infrastructure projects.

Leon said: "Shortages of skilled labour is a cost driver, and the impact of recent interest rates cuts is yet to be felt. Therefore margins have decreased significantly. Credit risk has increased considerably, in particular for small construction businesses. Many with tight liquidity have extended their payment terms. In H1 of 2024 insolvencies increased by an astonishing 27.5% year-on-year, with small and medium-sized companies affected most."

Germany construction output

	2023	2024*	2025*	2026*
Construction total	0.2	-2.7	0.1	1.7
Residential	-0.5	-3.7	-0.2	1.9
Non-residential	0.7	-1.5	0.3	1.2
Civil Engineering	2.2	-0.8	0.8	1.4

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Italy: Insolvencies are increasing among highly leveraged businesses and elevated interest rates

After three favourable years, construction output growth in Italy cooled down in 2024 (+0.9%) and will grow sluggishly in 2025 and 2026. In 2023 and 2024 construction was mainly driven by the civil engineering segment, supported by EU funding for energy security, power grid and transportation improvements (Recovery and Resilience Facility). Residential construction is facing challenges since early 2024, as large fiscal incentives expired end of 2023. Demand for new housing remains sluggish in the face of stubbornly high interest rates. In the public infrastructure segment, exposure to late payments (particularly for road and rail construction) is generating high DSO, which is usually passed on to suppliers. Leon noted: "The growing challenges for residential construction will lead to lower margins in a segment characterised by fierce competition, in particular among smaller businesses." Banks have become reluctant to provide credit to residential construction businesses. Insolvencies are increasing, mainly due to the diminished tax credit support, highly leveraged businesses and the burden of higher interest rates.

Italy construction output

	2023	2024*	2025*	2026*
Construction total	7.0	0.9	0.0	0.4
Residential	3.2	-2.2	-0.4	0.5
Non-residential	10.3	3.5	0.5	0.6
Civil Engineering	12.2	4.5	0.3	-0.1

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

The Netherlands: A modest rebound is expected and future demand looks strong

In 2024, construction output in the Netherlands is expected to contract 2.8%, after a 1.8% growth in 2023. However, a rebound is expected in 2025 (up 1.6%) and in 2026 (up 1.4%). Future demand is strong, in particular for residential construction.

Leon explained: "Due to higher inflation and input costs, margins of construction businesses have been squeezed, although on the whole most businesses still show profit. However, these are structurally low, mainly due to strong competition. The majority of construction companies operate with a net return of 2% or less, which makes them susceptible to longer demand and order downturns."

He added: "Payment experience has been generally good. However, insolvencies have started to increase, due to the late cyclic character of the sector and higher input costs, which cannot be fully passed on to customers. Residential construction is especially affected as well as construction materials. To date the number of insolvencies increased by 20% in 2024. But it's a fair guess that the number of insolvencies will drop next year."

The Netherlands construction output

	2023	2024*	2025*	2026*
Construction total	1.8	-2.8	1.6	1.4
Residential	-0.2	-2.7	1.6	0.9
Non-residential	3.5	-4.8	1.4	2.0
Civil Engineering	3.3	-0.7	2.1	1.6

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

United Kingdom: High rates of insolvency, labour shortages and poor payments behaviour cloud industry

UK construction output is expected to have decreased by 0.2% last year. High interest rates dramatically reduced housebuilding activity in the residential subsector during 2023 and into 2024. Labour shortages are a serious issue, holding back construction projects. In 2025 and 2026 construction output is forecast to grow by more than 2% annually, but downside risks remain.

Leon noted: "Even in good years single digit margins are the norm in the UK industry, so it comes as no surprise that profits have been seriously squeezed over the past 12 months. Payment behaviour has been bad in 2023 and H1 of 2024. Insolvencies increased to a level only comparable to the 2008 global financial crisis. Whilst there are signs that insolvencies may have peaked, an improvement in the insolvency outlook is unlikely until 2025 at the earliest, and bank credit options are less readily available for construction businesses."

UK construction output

	2023	2024*	2025*	2026*
Construction total	2.5	-0.2	2.1	2.5
Residential	-7.1	-4.8	1.4	2.5
Non-residential	4.7	-1.7	2.1	1.7
Civil Engineering	10.4	4.8	2.6	3.1

Year-on-year, % change. (* Forecast) Source: Oxford Economics.

Impact of construction materials costs - a mixed picture

The cost of construction industry raw materials started to rise during the pandemic supply chain disruptions and surged further still as inflation spiked. While prices in many markets are now easing, they are remaining higher than before the inflationary period. The result is that margins remain tight in some markets.

In Australia, construction materials prices have stabilised. Construction companies are also able to transfer higher costs to their customers. In Europe, the picture is also easing. In many markets the input costs for materials have normalised, giving construction businesses the opportunity to regain some margins.

Smaller US construction businesses still feeling the pinch

In the US, materials prices are lower than at the peak seen in Q1 of 2022, but smaller construction businesses and those exposed to fixed price contracts are still feeling the pinch, with larger firms less likely to be impacted by higher costs. In East Asia prices for construction materials remain high, which means a heavy burden for smaller businesses, as their profitability was already low before the price increases started.

> “Large builders offer higher wages, disadvantaging smaller construction businesses.”

Matt Nathan

Labour shortages are a serious issue in advanced markets

High materials pricing is not the only cost driver shaving construction margins. High labour costs and project delays caused by a lack of skilled workers is applying a heavy toll in most advanced markets. In fact, with the except of Japan, East Asia is currently the only market that is not struggling with labour shortages.

Japan stands out in Asia as its ageing population and declining birth rates are leading to labour shortages across sectors, but especially in construction. However, the difficulty in recruiting construction workers is an issue that cuts across borders. In Australia, staffing shortages and rising labour costs are ongoing issues, impacting productivity, project schedules (and opportunities) and margins.

Acute labour shortage in several European countries

A similar scenario is playing out in Europe, which could become a major structural problem in the region in the mid-term. A lack of staff and higher wage costs are a serious issue, strongly impacting profit margins and delivery deadlines. Labour shortage and wage costs are in particular an issue for builders that work with fixed contract prices, unable to pass on extra costs.

This shortage of skilled labour is particularly acute in Germany, the Netherlands and the UK, seriously affecting margins and holding back construction projects. Our trade sector specialist for Europe Leon Barendsma observes that some contractors even take on projects below cost in order to retain their employees.

Builders in the US are competing for skilled labour force

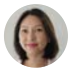
Labour shortages have been a persistent issue in the US for several years. The structural depletion caused by the ageing workforce with not enough younger workers coming in to replace them is being further squeezed by the growth in government infrastructure projects, leading to delays. Project costs are rising to meet higher wages, negatively affecting companies that have a lot of fixed price contracts. A curb in immigration by the incoming administration could add to the issue.

According to our sector specialist in North America, Matt Nathan: “Builders are most likely to be competing amongst each other for the skilled labour required to complete their projects. This will mean builders with sizeable scale and resources will be able to offer higher wages and better benefits to attract workers, putting smaller construction businesses at disadvantage.”

However, he added: “It will be interesting to see over the coming years how much new technology advances and AI can bridge the gap in the labour shortage in the sector.”

New technologies as a chance

> “Drones are being used to improve efficiency in aerial surveys, site inspections and data collection.”



Mon Razak

The construction industry has traditionally been slower to adopt digital technologies than other sectors. However, the tide is beginning to turn with surge in investments in industry technology. According to McKinsey, USD 50 billion was invested in architecture, engineering and construction technology between 2020 and 2022, a massive 85% higher than the previous three years.

As Matt Nathan noted, increasing numbers of construction companies are exploring how new technologies can help them to address labour shortages. He said: “I do think this will be a key focus for companies as a way to try and offset the labour shortage and improve profitability.”

Adoption of new technologies is increasing rapidly in Europe

His colleague in Europe, Leon Barendsma agreed and said: “The buzz in some industry circles is that offsite construction such as prefabrication of modular buildings is a potential solution to a range of problems from the shrinking workforce to dangerous work environments, and a lack of reliable outcomes (for instance, whether projects will be consistently delivered on time, within budget, and to exact specifications).” He sees the adoption of new technologies by construction companies increasing rapidly in Europe.

In Australia, Mon Razak added: “Construction companies are investing in technologies such as project management software for better planning, scheduling and resource allocation, as well as virtual reality for design and planning. Drones are being used to improve efficiency in aerial surveys, site inspections and data collection”.

Costs as a technology entry barrier for smaller companies

Costs in the short-term could be a technology entry barrier for some (especially smaller) companies, as access to capital is limited and more expensive compared to a few years ago. Matt summed it up succinctly when he said: “Smaller scale “mom and pop” construction companies might be more reluctant or lack the additional funding required to implement and adopt the new technologies.” That said, the sector is already showing interest in technologies like BIM (building information modelling), digital twins, robotics, and automation to help streamline project management, collaboration and decision-making to reduce delays and costs.

Our sector specialist in East Asia, Shane Tan, said: “Technologies such as offsite prefabrication, 3D printing and robotics are increasingly being seen in large companies with sufficient cash flow for capital expenditure.” But in common with the other markets, cost remains a barrier for many companies, especially smaller businesses.

Greater sustainability: a boon or a bane?

Construction accounts for a whopping 36% of the world's energy use and 40% of CO_2 emissions. Some markets face the added challenge of an old and inefficient building stock. In Europe, 85% of the region's structures predate 2001 and the majority struggle with poor energy efficiency.

There is pressure on the European construction sector to reduce emissions. As Leon Barendsma noted: "This is a severe challenge, since the construction sector will have to invest in new materials and equipment to comply with 'green standards' when businesses are already grappling with the high costs of labour, energy and some raw materials." That said, some European markets are receiving sustainability cash injections. For example, the EU's Energy Performance of Buildings Directive and the Energy Efficiency Directive is driving investment, including the EUR 1 billion allocated by the Netherlands Government for clean and emission-free construction.

Large investments in Australia and Japan

A similar situation can be seen in Australia. As Mon Razak explained: "The Australian Government is investing more than AUD 65 billion in renewable capacity through the Capacity Investment Scheme, creating opportunities for construction companies in large scale wind farm projects. Solar power, green roofs, advanced insulation, rainwater harvesting and smart building management systems all provide sector opportunities."

The Japanese Government has also implemented several environmental regulations including annual reporting of greenhouse gas emissions and sustainability, and rules on waste management. Companies can receive subsidies and incentives if they adopt green building practices, including the construction of Zero Energy Houses (ZEH) by 2030.

Sustainability is less of an issue in the US

The construction industry in the USA is not facing the same level of government pressure to improve sustainability as that seen in Europe, Australia and Japan. Here the approach is more focused on providing incentives for the industry to adopt

greener practices. The Inflation Reduction Act has provided funds to the Environmental Protection Agency to identify and develop standardised labelling for the embedded carbon in construction materials, as well as grants to support a green building programme. It is not yet clear whether the Trump administration will continue with such low-carbon building projects and grants.

> "Reducing emission is a severe challenge, needing green investments amid high costs."

Leon Barendmsa

The opportunities that sustainability projects provide will ultimately outweigh the challenges (costs) presented in most markets across the world. But the sector will need to adapt to new standards and new ways of working to achieve this. In the current environment of tight margins and high interest rates, this will be a challenge that not all businesses, particularly in Europe, could survive.

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