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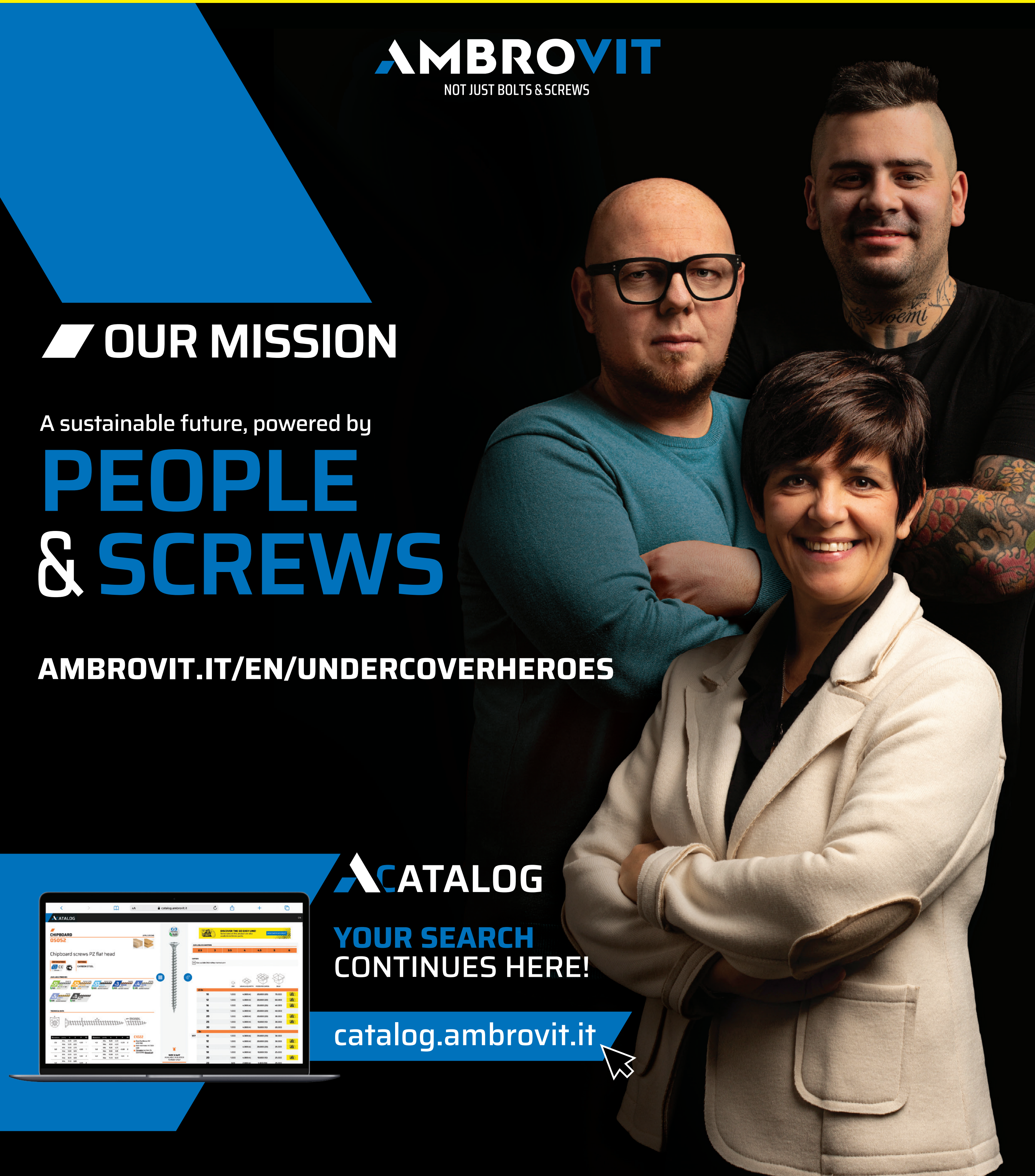


Identifying trends within the construction industry

Established in 1905, the European Construction Industry Federation (FIEC) has been representing the interests of the European construction industry for 120 years. In this article, FIEC looks at the key trends currently impacting the European construction market and its 32 national member federations in 27 European countries.

How can we capture, at a glance, the economic health of Europe's construction industry? Like an impressionist canvas, a few well chosen brushstrokes, three key indicators reveal the overall picture: Business confidence, investment intensity and employment levels.

Over the past five years, the EU business confidence indicator for construction has traced a rollercoaster path. After rebounding sharply post Covid-19, it peaked at +8.3 in December 2021, then slid under the combined pressure of higher interest rates and inflation. The low point came in June 2024 (–8.2), followed by a slight recovery; the index now hovers around –5, with lukewarm optimism that betrays limited visibility.

In terms of investment intensity, real activity has slowed. After modest growth in 2022 and 2023, construction investments fell by more than 2% in 2024. Forecasts for 2025 point to a modest improvement, but still below zero. The main cause for this development is the situation in the housebuilding segment, with rising interest rates, reduced access to credit, as well as the phase-out of public incentives.

The picture is far from uniform. Civil engineering such as infrastructure and networks props up the numbers, while building and non-residential construction remain downward oriented for 2024 – 2025. Eastern and southern Europe, with the notable exception of Italy, are enjoying solid rebounds, whilst the large western economies such as France and Germany contract and the north promises a pick up after a lacklustre 2024.

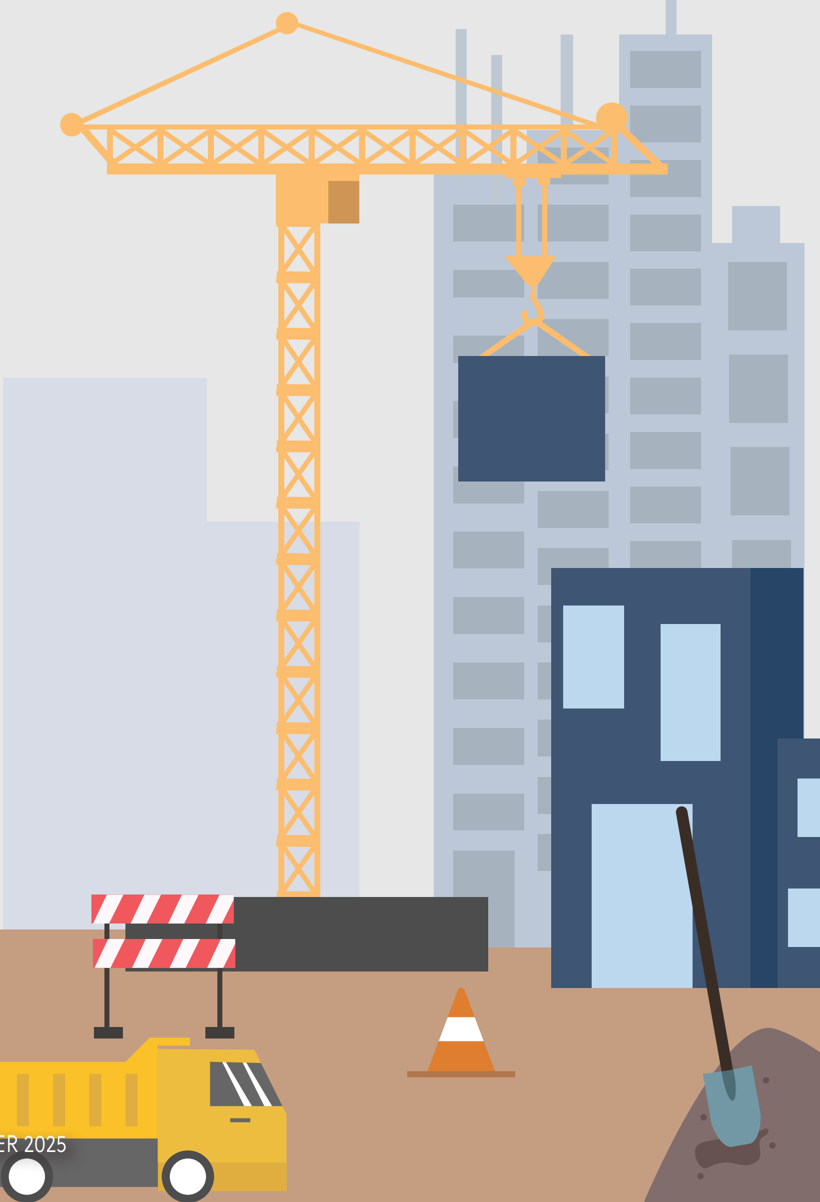
A classic lagging indicator, employment is now also following suit. After three years of net gains, 2024 shows only modest growth, with a moderate decline expected in 2025. Once again, EU averages mask sharp contrasts. The East and South are broadly in-line with activity trends, whilst the West and North are more mixed, with some markets absorbing the shock better than others.

"Over the past five years, the EU business confidence indicator for construction has traced a rollercoaster path."

Affordability of housing and the EPBD

Difficulties in the housebuilding segment have already been mentioned and the crisis continues to deepen. Access to affordable, adequate and energy efficient housing is getting more difficult. Urban centres are under growing pressure, while housing supply struggles to keep pace. The revised Energy Performance of Buildings Directive (EPBD) adds another layer of urgency, aiming to decarbonise Europe's building stock and accelerate renovation from below 1% to roughly 3% per year. FIEC supports these objectives, recognising their potential to stimulate sustainable economic growth.

Total costs have been identified as a main challenge, including the costs of construction and financing conditions. Addressing public and private financing schemes is therefore key to making energy renovations and new construction affordable and



accessible. When new energy efficiency standards introduced by the EPBD lead to higher costs of construction, new risk sharing mechanisms must be implemented to balance upfront costs with permanent savings – due to reduced energy consumption over the lifecycle of the building.

Another lever is reducing costs through productivity gains in construction. Off-site construction and digitalisation are among the big trends aiming to speed up delivery and help addresses supply shortages more efficiently. Streamlining permitting procedures across Member States is also important as their complexity leads to project delays and inflating costs.

> Innovation will be key to meeting climate targets without compromising quality or affordability."

Decarbonisation and circularity in construction

The construction sector contributes to Europe's carbon footprint representing 5% – 12% of total national Greenhouse gas emissions, primarily through material production. At the same time, construction activity generates over a third of the EU's waste, with demolition material forming a major share of that total. Decarbonising construction, therefore, requires a twin focus of reducing industrial emissions by greater material efficiency and fostering circularity across the construction value chain.

FIEC supports the EU Emissions Trading System (EU ETS) as a comprehensive market-based mechanism for industrial decarbonisation. By providing long-term price signals, the EU ETS encourages investments in clean material production, as well as sustainable construction methods. As the system evolves, its influence will increasingly direct construction demand towards low carbon solutions. For this shift to be successful, market conditions must remain stable and predictable, especially given the long-term investment cycles in industrial production.

Innovation will be key to meeting climate targets without compromising quality or affordability. The development and deployment of novel low carbon materials will offer the sector new opportunities for both performance and sustainability. To unlock this potential, FIEC calls for targeted support for research, and market uptake, especially as discussions are ongoing to define the priorities of the upcoming 2028 – 2034 EU Programming Period, which will be reflected in the post 2027 long-term EU budget.

In parallel, the acceleration of circularity in construction is key to achieving the EU environmental objectives. Measures to enable material reuse include removing barriers for secondary materials on the single market, consistent standards, the definition of end-of-waste criteria, design for reconstruction, recycling infrastructure close to construction sites, as well as procurement policies that incentivise the use of secondary material when safety and performance criteria are met.

Every initiative must pay attention to not risk placing disproportionate financial and administrative burden on SMEs, as those businesses are the backbone of our sector. Regulatory clarity is essential as a basis of innovative and sustainable future business models, to effectively support circularity in construction.

Labour shortages and skills gaps

The above mentioned priorities provide significant opportunities for the construction sector, but companies cannot find enough workers, nor workers with the adequate skills. As the competitiveness of the sector, and a successful clean transition, depends on attracting new workers and upskilling and reskilling them, FIEC is heavily involved in improving training schemes and the overall attractiveness of the sector.

Additionally, FIEC supports the upcoming EU talent pool to facilitate the recruitment of third-country nationals for sectors facing labour shortages, which are accompanied by integration policies and training opportunities to retain workers in the industry. +