



Industry trends – Construction

Tariffs and related economic uncertainty weigh on commercial construction investment

July 2025



Global overview

The industry is facing less growth in 2025

After increasing 2.7% last year we expect global construction output to slow down to 1.4% this year, followed by 2.1% in 2026. Growth in advanced economies is predicted to increase by just 0.5% in 2025, while building activity in emerging markets will grow by 2.2%.

The global trade of construction materials is not heavily exposed to the US. The domestic nature of the construction market and relatively regionalised supply chains mean that construction will be more insulated from the current global trade uncertainty than other industries.

However, the US tariffs and related retaliatory measures have increased business uncertainty, leading to lower commercial construction spending. Companies are delaying investment decisions until the outlook for the global trade environment becomes clearer, causing postponements and even cancellations of construction projects. Industrial projects are likely to be most affected due to their links to manufacturing and export markets. As a result, the non-residential construction segment is expected to grow by just 1% annually in 2025 and in 2026.

Global residential construction is forecast to expand by 1.4% this year. There will be a subdued performance in some major economies, as still elevated interest rates weigh on affordability of property and demand for housing. The impact of interest rate cutting cycles should be felt in 2026, with lower rates alleviating some of the pressure for both demand and supply in the housebuilding market. We expect the residential segment to grow by 2.6% in 2026. However, stubborn inflation poses a downside risk to monetary easing.

The civil engineering sector saw robust growth rates in 2023 and 2024, as governments worldwide championed major infrastructure projects and industrial policies in a bid to boost their economies. The segment is forecast to grow by 1.9% in 2025 and 2.4% in 2026, driven by public investments in energy security and green transition.

Construction materials costs have decreased from historic peaks seen in 2022 and 2023, but remain elevated in many countries. This leads to ongoing pressure on margins and reluctance to commit to building projects. A shortage 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.

Industry performance forecast					
Europe		Asia and Oceania		Americas	
Austria	Netherlands	Australia	Philippines	Brazil	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 average / 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.
Belgium	Poland	China	Singapore	Canada	
Czech Republic	Portugal	Hong Kong	South Korea	Mexico	
Denmark	Slovakia	India	Taiwan	USA	
France	Spain	Indonesia	Thailand		
Germany	Sweden	Japan	UAE		
Hungary	Switzerland	Malaysia	Vietnam		
Ireland	Turkey	New Zealand			
Italy	UK				



Industry trends

Construction

Output per region	2023	2024	2025*	2026*
North America	-0.9	4.3	0.5	0.5
Asia-Pacific	6.1	3.6	1.8	2.6
EU & UK	2.1	-0.9	0.3	1.8
Middle East	3.5	4.0	5.2	5.7

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

Global output per subsector	2023	2024	2025*	2026*
Construction total	3.3	2.7	1.4	2.1
Residential	-1.7	1.1	1.4	2.6
Non-residential	7.2	3.8	1.0	1.0
Civil Engineering	7.3	4.1	1.9	2.4

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 and social housing 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	2023	2024	2025*	2026*
Brazil	-0.3	4.3	1.6	2.5
Canada	-0.9	-0.3	1.2	1.2
Mexico	15.3	2.9	-2.2	1.4
USA	-2.3	5.2	0.7	0.4

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

USA

Rising uncertainty prompting businesses to delay building projects

We expect US construction output growth to cool down to 0.7% in 2025 and 0.4% in 2026. Trade policy uncertainty and weakening consumer confidence weigh on the US economy, constraining construction through suppressed investment and activity. The looming impact of tariffs on above-target inflation will become visible in the coming months, and we expect the Federal Reserve to retain its wait-and-see mode until at least after the summer.

Rising uncertainty is prompting businesses to delay building projects and withhold investment while awaiting further clarity. We expect non-residential construction output to contract by 1.4% in 2025 and by 4.1% in 2026.

Residential construction is expected to grow by 0.9% in 2025 and by 1.1% in 2026. Mortgage interest rates have stayed higher than expected, nearing 7%, amid uncertainty over government spending and tariffs. This will keep housing demand subdued. Limited room for further Fed rate cuts and rising material costs from tariffs affect this subsector. Civil engineering performance remains robust, expected to grow by 3.4% in 2025 and by 5.5% in 2026. The subsector benefits from ongoing infrastructure investment.

However, the large budget deficit could impact federal spending on construction in the mid-term.

The producer price index for construction material remains much higher than before the recent inflationary period. It is likely to stabilise at a higher level, but tariffs could cause prices to rise again. The construction labour market is tight, and the current policy to curb immigration and implement more deportations could exacerbate labour shortages in the industry. Illegal immigrants account for about 15% of the US construction workforce.

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**
- Canada**
- Mexico**
- USA**

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.

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Bleak
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Matt Nathan is Atradius Underwriter in Baltimore, Maryland, USA. Construction sector specialist for the Americas.



Construction outlook Asia Pacific

Construction output	2023	2024	2025*	2026*
China	7.1	4.1	1.7	2.3
India	10.1	8.5	2.8	3.5
Indonesia	4.9	7.0	7.1	5.8
Japan	2.1	-2.8	1.4	0.4

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

China

Lower growth despite policy support

We expect Chinese construction output to slow down to 1.7% this year and to grow 2.3% in 2026. In order to ease the property sector crisis, the government has provided mortgage rate cuts, eased restrictions on home purchase, and funded support for targeted property projects (e.g. social housing). Those policy efforts to boost housing demand have shown some signs of success, especially in top-tier cities, but a comprehensive recovery will require a reset of house price expectations and improved sentiment. Property developers are still facing strict regulation and financial pressure.

Non-residential building is forecast to grow 2.2% in 2025. The subsector suffers from lower private investment due to tariffs and trade uncertainty. Policymakers try to provide an easier regulatory environment to foster greater investment. Upcoming rate cuts should provide support.

The risk of payment delays and insolvency in construction is 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. 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 risk for this segment is low.

India

Infrastructure investment drives growth

India's construction output growth is expected to increase by 2.8% in 2025 and 3.5% in 2026. Growth is mainly driven by investment in infrastructure (roads and railways) and industrial construction. Civil engineering output is expected to grow by 3.4% in 2025 and 4.6% 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 high credit risk due to their long-term nature and the reliance on government payments, which can be delayed.

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. 2025-2026 annual construction output figures for Indonesia, the Philippines, Thailand and Vietnam are robust (more than 4% 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 prices leading to liquidity shortages. In contrast, Singapore's construction industry credit risk is low.



Industry performance forecast

Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Philippines
Singapore
South Korea
Taiwan
Thailand
UAE
Vietnam

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Shane Tan is Atradius Associate Senior Underwriter in Singapore. Construction sector specialist for Asia-Pacific.



Construction outlook Europe

Construction output	2023	2024	2025*	2026*
France	2.2	-2.5	-1.6	0.4
Germany	-0.2	-3.6	-2.5	2.2
Netherlands	1.8	-2.7	2.4	1.1
United Kingdom	2.3	0.5	1.1	1.7

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

Eurozone and UK

Zero growth in 2025, followed by a modest rebound next year

Construction activity across the eurozone is expected to level off at 0.0% in 2025, followed by a 1.4% increase in 2026. Tariffs will reduce private investment through a combination of higher business uncertainty, lower demand and higher costs. Residential construction activity remains subdued in 2025, but recent European Central Bank interest cuts should provide a stimulus by the end of the 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.

Across the EU and the UK, material costs will remain higher than in the past, and labour shortages are structural. Both issues negatively impact the margins of builders. Credit risk for construction businesses remains high in most European markets.

France: Construction activity will shrink by 1.6% in 2025, mainly due to a 2.5% decline in the residential segment. This will add pressure on the already thin margins of builders. 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 (which includes many small businesses with weak financials). Construction output will rebound slightly in 2026 as the lagged impact of interest rate cuts should support the sector.

Germany: After contractions in 2023 and 2024 we expect construction output to decrease again this year by 2.5%. High labour and materials costs have led to the postponement or cancellation of many projects. Credit risk remains high, in particular for small construction businesses. Many of them with tight liquidity have extended their payment terms. However, there are signs that housing investment is bottoming out as

monetary policy easing feeds through. As of 2026 both the civil engineering and non-residential building subsectors should be boosted by a proposed fiscal package. Germany’s infrastructure needs an overhaul and will draw government investment into the civil engineering sector in the coming years.

Netherlands: We expect Dutch construction output to increase by 2.4% in 2025 and by 1.1% in 2026. Future demand is strong, in particular for residential construction. 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. Payment experience has been generally good. We expect decreasing construction insolvencies in the coming months, after an increase last year.

United Kingdom: Construction output is forecast to increase by 1.1% in 2025 and 1.7% in 2026. Further squeezing of public spending is likely to come in the Autumn Budget, with infrastructure projects prime candidates to be cut or scaled down. Residential construction should perform well over the medium term due to ongoing shortages. The rate of insolvencies peaked in 2024, at levels only comparable to the 2008 financial crisis. In the coming 12 months we expect an improvement of the sector’s credit risk situation, but market conditions remain challenging.



Industry performance forecast	
	Austria
	Belgium
	Czech Republic
	Denmark
	France
	Germany
	Hungary
	Ireland
	Italy
	Netherlands
	Poland
	Portugal
	Slovakia
	Spain
	Sweden
	Switzerland
	Turkey
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