DIW Weekly Report 5+6 2026

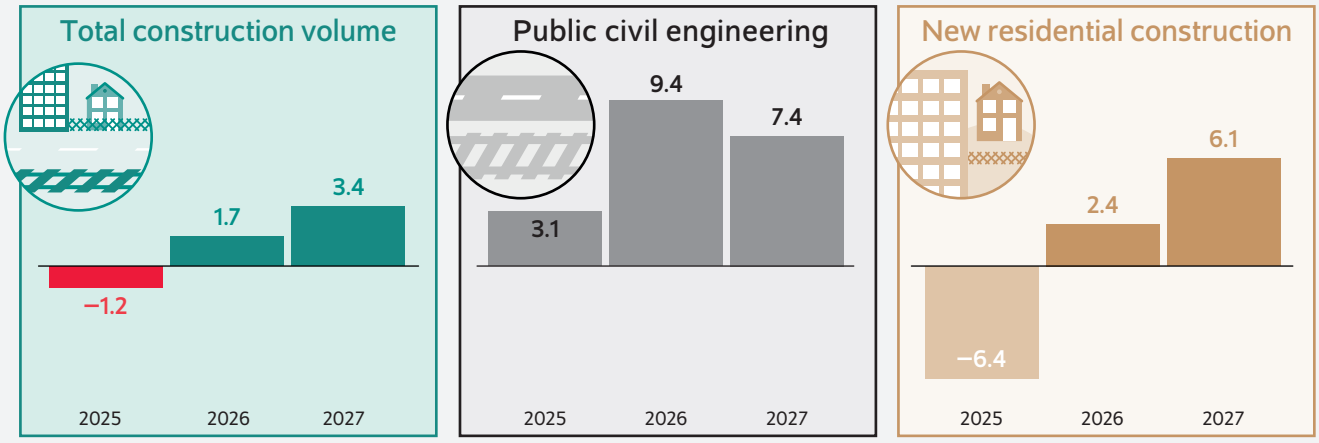
AT A GLANCE

Construction Industry Returns to Growth

By Christian Danne, Martin Gornig, and Laura Pagenhardt

- For the first time since 2020, real construction volume is expected to increase in 2026 by 1.7 percent, and by a further 3.4 percent in 2027
- Growth in construction volume driven by public sector construction, with real public-sector construction volume rising by 6.7 per cent each year
- Declining income uncertainty, more stable prices and interest rates will cause a 2.4 percent rise in new residential construction in 2026 and a 6.1 percent increase in 2027.
- Despite the economic upturn, investment in non-residential construction is still lagging behind in the current year
- Productivity in the construction industry must increase so that government subsidies also lead to improvements in infrastructure and housing provision

Construction volume rebounds in 2026: public civil engineering leads, new residential construction follows
Year-on year change real construction volume, in percent



Source: DIW Construction Volume Calculation; projection 2025–2027.

FROM THE AUTHORS

"Construction is picking up again. The construction volume has bottomed out: residential construction is gradually picking up, but public construction in particular is expanding strongly. Even though capacity utilization is currently well below potential, there is a risk that the many billions in subsidies will lead to sharp price increases."
— Laura Pagenhardt —

MEDIA

Audio Interview with Laura Pagenhardt (in German)
www.diw.de/mediathek

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ABSTRACT

Following five years of crisis, construction output will grow in real terms again in 2026, increasing by 1.7 percent. Next year, growth could reach nearly 3.5 percent. Public construction is driving this recovery. Real public construction volume is expected to grow by 6.7 percent in both 2026 and 2027. The reason for this strong expansion is the gradual increase in spending from the Special Fund for Infrastructure and Climate Neutrality. However, residential and commercial construction will most likely remain stagnant in 2026. Nevertheless, these sectors should see substantial real output growth next year. Looking ahead, the billions in subsidies will fall short of sustainably improving Germany's infrastructure and housing supply unless the construction industry becomes more productive. Therefore, what is urgently needed is solid empirical research into the causes of the current productivity slump, followed by a coordinated initiative from policymakers and the construction industry to boost productivity.

Germany's construction industry has weathered a severe crisis. Between 2022 and 2024, interest rate hikes and soaring construction costs caused residential construction to plummet. Weak overall economic performance further dampened construction activity. The bottom seems to have been reached in 2025. While real construction output declined once again, the contraction was significantly smaller than in previous years. As in previous years, residential construction saw substantial losses, as many households continued to defer major building projects amid difficult financing conditions and uncertain income prospects. Meanwhile, non-residential construction provided a stabilizing effect. In particular, civil engineering posted further gains, driven by infrastructure projects in transportation, energy, and digitalization.

There is much that points toward a recovery in 2026. Construction prices have stabilized and interest rates have settled down. Order and permit figures point to a modest upturn in the second half of 2025. The comprehensive fiscal stimulus package is expected to boost construction activity: directly through substantial planned infrastructure spending, and indirectly through a broader economic upswing. While private households will likely remain cautious at first, civil engineering should continue to grow strongly. Residential construction should then follow suit the next year, with construction output posting stronger gains (Figure 1).

These are the results of DIW Berlin's construction volume calculations,[1] which include not only construction investment but also non-value-adding repairs in addition to construction in the narrower sense, these calculations encompass related sectors, such as steel and light metal construction, the manufacture of prefabricated buildings, building fittings, planning, and other services. Complementing the investment calculations of the statistical offices, DIW Berlin's annual construction volume calculations distinguish between

1 The construction volume calculation is funded by the *Zukunft Bau* research initiative of the Federal Ministry for Housing, Urban Development and Building (*Bundesministerium für Wohnen, Stadtentwicklung und Bauwesen*, BMWSB). Also see the definition of *Bauvolumen* in the DIW Glossary (in German; available online, accessed on January 13, 2026. This applies to all other online sources in this report unless stated otherwise).

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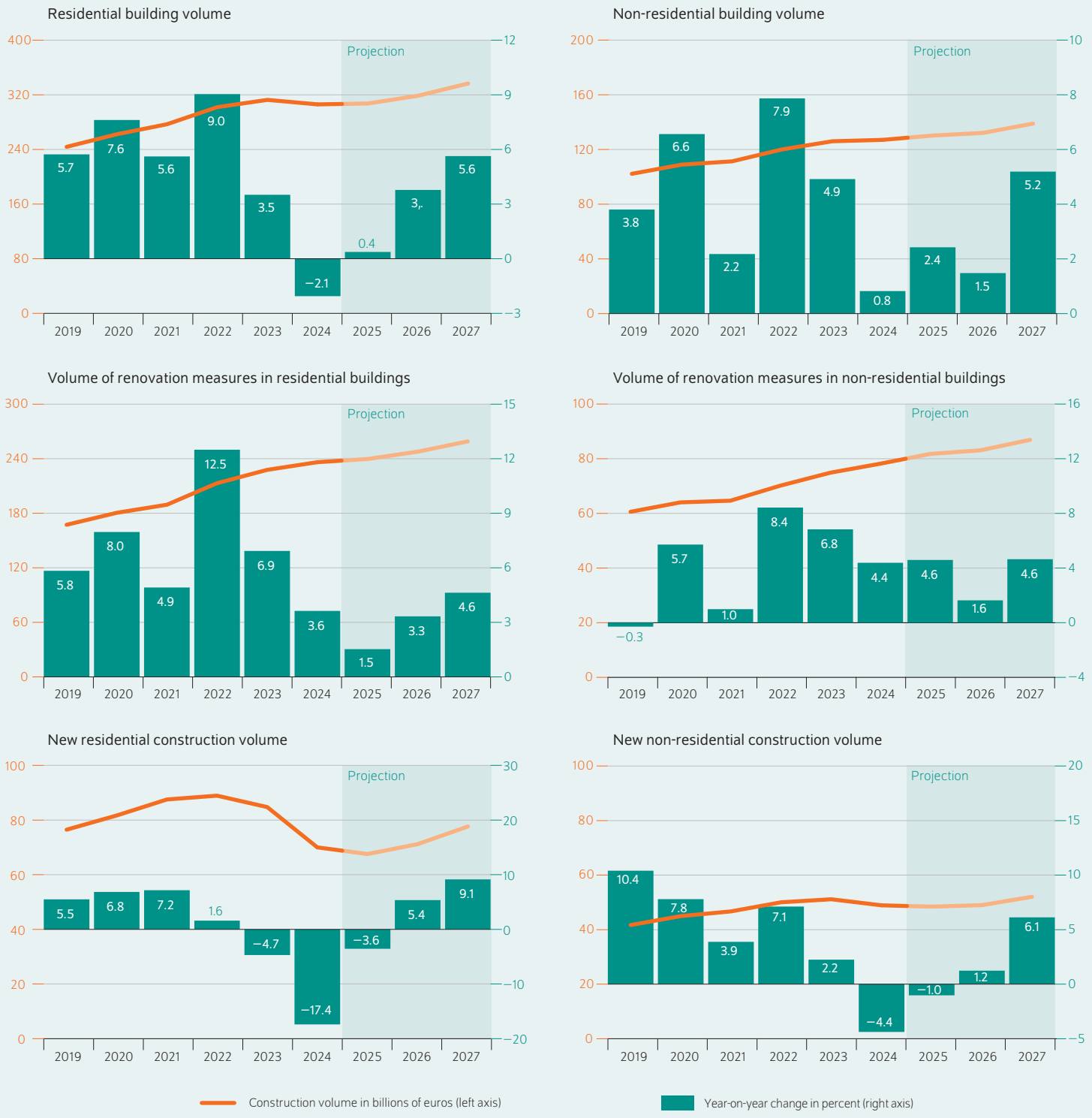
Figure 1

New and existing building construction in Germany

In billions of euros in current prices (left axis), year-on-year change in percent (right axis)

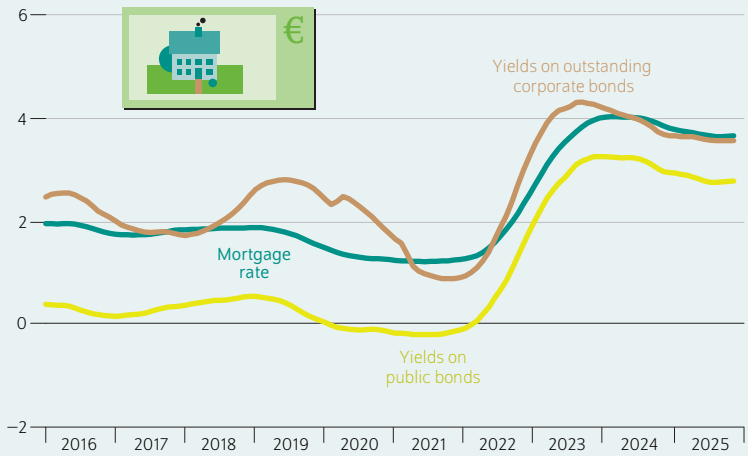


Source: DIW Berlin Construction Volume Calculations.

New residential construction activity gaining momentum – non-residential construction is lagging behind.

Figure 2

Interest rates and yields
In percent, twelve-month moving average



Source: Deutsche Bundesbank.

Interest rates remain high, partly due to borrowing associated with the approved special funds.

new construction measures and modernizations of the existing building stock.[2]

In addition to calculating and documenting past construction volumes, DIW Berlin also provides forecasts for 2026 and 2027 (Box). This forecast is integrated into DIW Berlin's Economic Outlook, particularly with regard to investment activity. On top of the present estimates regarding the development of total construction investment, the construction volume calculations include separate forecasts on the volumes of new and existing housing in the building construction, as well as forecasts for the residential and non-residential sectors. Moreover, these figures are used to derive the development trends of the main construction industry and the renovation sector.

Residential construction is slowly recovering

The residential construction crisis persisted in 2025, though it eased somewhat compared to previous years. Demand has dropped markedly since the construction boom peaked during the COVID-19 pandemic. Sharp increases in construction prices and significantly tighter financing conditions have made residential projects unaffordable for many households. Although prices have recently stabilized, albeit at elevated levels, many projects remain financially unviable. The weak overall economic performance and noticeable cooling of the labor market have further impacted residential construction. The decline in employment, particularly in manufacturing

2 Martin Gornig et al. (2025): Strukturdaten zur Produktion und Beschäftigung im Baugewerbe – Berechnungen für das Jahr 2024. BBSR-Online-Publication No. 56 (in German; available online).

Box

Method for forecasting construction volume

Indicator-based statistical models are used to forecast the construction volume. The forecasting variable, for example residential construction volume, is regressed on an autoregressive term as well as on concurrent and lagged values of the respective indicator, for example new orders. The construction volumes of new and existing buildings are estimated separately.

The forecast equation is as follows

$$y_t = \alpha + \sum_{i=1}^{n} \beta_i y_{t-i} + \sum_{j=0}^{m} \gamma_j x_{t-j} + \varepsilon_t$$

y_t stands for the value to be forecast, x_t for the indicator, and ε_t for the statistical error term. α, β_i, and γ_j are the estimated parameters. The numbers of lags n and m (years) are determined based on the autocorrelation or cross-correlation function. The approach of estimating a large number of individual models and using average values for the forecast is proven to be effective. For an individual series, up to 1500 single models are estimated. Construction permits, new orders and the order backlog, production, interest, loan volumes, employment and income trends, and surveys of construction companies and freelance architects are proven to be suitable indicators.[1]

Using this approach, a forecast with a prediction capability of up to two years can be made for all aggregates. It should be noted, however, that the number of point estimates used for averaging decreases significantly as the forecast range increases due to the different prediction capabilities of the individual indicators. Thus, to provide the forecast with additional stability, expectations for employment and GDP for 2026 to 2027 are also included in the models as concurrent indicators. Expected civil engineering work is equal to the difference between total volume and construction volume.

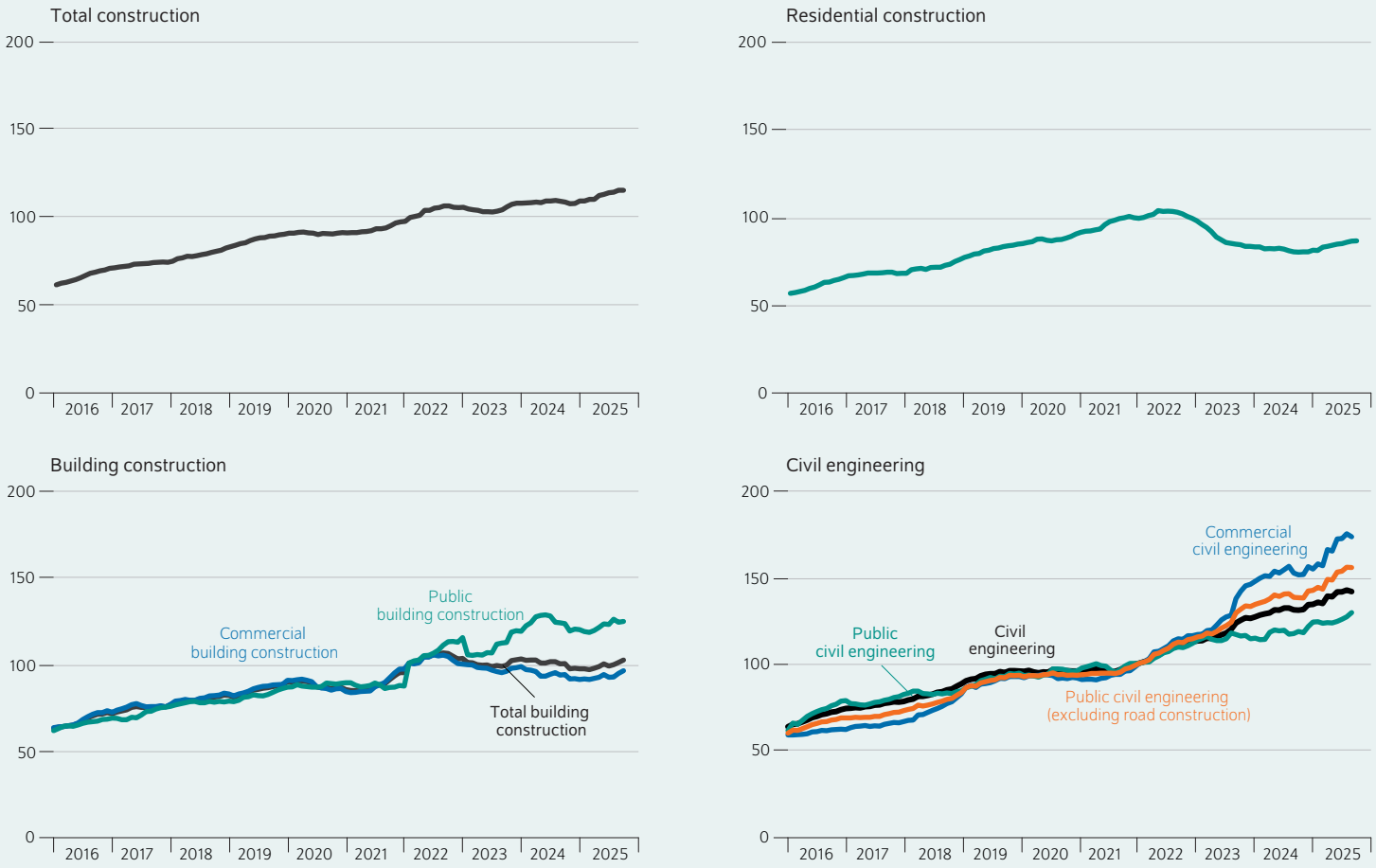
The construction volume forecast for 2025 is also calculated using this method (nowcast). The indicators are updated using statistical methods to obtain values for 2025. All model results are rationalized using the construction investment forecast. Assumptions about the development of construction prices are based on the Winter 2025 Joint Economic Forecast[2] and the authors' calculations. Price forecasts are adjusted for each sector.

1 Claus Michelsen and Martin Gornig (2016): Prognose der Bestandsmaßnahmen und Neubauleistungen im Wohnungsbau und im Nichtwohnungsbau. BSSR-Online-Publication Nr. 07 (in German; available online).

2 Geraldine Dany-Knedlik et al. (2025): DIW Economic Outlook: German Economy in the Starting Blocks – Global Economy Holds Its Own. DIW Weekly Report No. 50, 805–839 (available online).

Figure 3

New orders in the main construction industry
Index 2021 = 100, current prices, twelve-month moving average



Source: Federal Statistical Office.

New orders are picking up, with a slight increase in residential construction and a strong increase in public construction.

and business services, along with concerns about future income prospects, likely continued to deter many households from undertaking construction projects. The persistently high interest rates on residential construction loans, which are also driven by the announced Special Fund for Infrastructure and Climate Neutrality (*Sondervermögen für Infrastruktur und Klimaneutraliät*, SVIK), have amplified this effect (Figure 2).[3]

At the same time, there are increasing signs of stabilization. Following sharp declines since 2022, new orders increased slightly in 2025 (Figure 3). Additionally, the order backlog recently showed a modest recovery (Figure 4). According to ifo surveys, the number of months of production secured increased to nearly four months. Meanwhile the percentage of firms facing acute order shortages declined significantly. At the same time, assessments of the business situation and expectations improved markedly over the course of the year.

This development should translate into increased construction activity over the course of 2026, which will gradually lead to a recovery in residential construction. The anticipated economic upturn and progressive labor market easing should provide additional momentum.[4] The persistent housing shortage and sharply rising rents in metropolitan areas – particularly relative to the subdued property price developments of recent years (Figure 5) – will likely provide further support for residential construction.

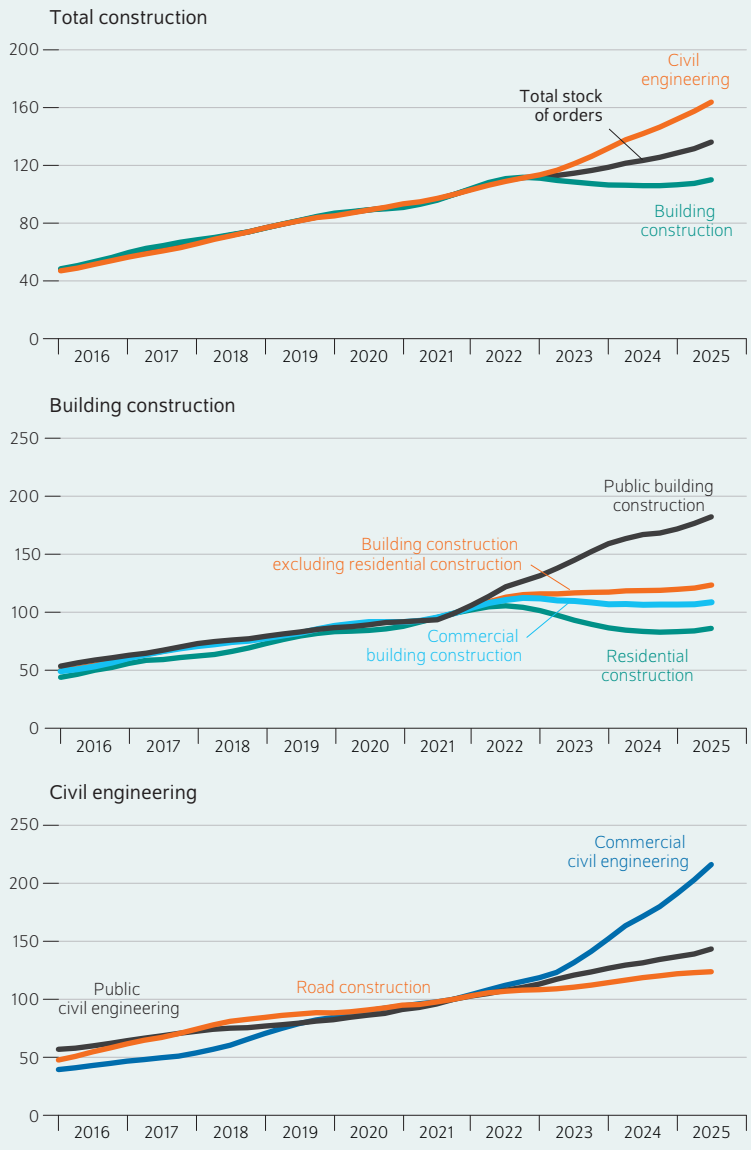
Overall, nominal housing construction volume is likely to have increased slightly last year (0.4 percent). As prices rose

3 Government borrowing plans pushed yields on German federal bonds higher in March 2025. Yields on German bonds serve as a benchmark for long-term interest rates – when they rise, mortgage rates also rise.

4 Geraldine Dany-Knedlik et al. (2025): DIW Economic Outlook: German Economy in the Starting Blocks – Global Economy Holds Its Own. DIW Weekly Report No. 50, 805–839 (available online).

Figure 4

Border backlog in the main construction industry
Index 2021 = 100, current prices, twelve-month moving average



Source: Federal Statistical Office.

The order backlog is growing dynamically, especially in public building construction.

more sharply, this translates into a real decline of 2.6 percent. Nominal growth rates of 3.8 percent and 5.6 percent are forecast for the current and coming years. With stable price increases, this will result in real growth of 0.9 percent and 2.7 percent (Table 1).

New construction shapes residential construction dynamics

The downturn in residential construction in recent years was primarily caused by a collapse in the volume of new construction. In 2025, the real volume of new housing construction was more than 40 percent below the 2020 level. The proportion of new construction in total residential construction also fell dramatically. Very unfavorable financing conditions are likely to have been the main culprit. Soaring construction costs, combined with rapidly rising interest rates, made new construction projects unaffordable for many households and hardly profitable for property developers. This development is also reflected in building permits, which almost halved between 2020 and 2024 (Figure 6). The decline was particularly pronounced for single-family and two-family homes.

Building permits for residential construction picked up in 2025, pointing toward a turnaround in new residential construction this year. This likely reflects pent-up demand: many households postponed their plans to build in recent years but are now unwilling or unable to delay any longer despite higher costs. At the same time, the overall conditions are becoming more favorable again for new construction over the course of the year, with more stable prices and interest rates, albeit at a high level, and a less uncertain income situation. The currently very low capacity utilization in residential construction also favors a rapid start to newly planned projects (Figure 7). Another short-term stimulus is the 800 million euro in additional funding for construction-ready projects.[5] In the medium term, measures under the *Bauturbo* initiative should also have an accelerating effect.[6] The volume of new residential construction will likely increase noticeably in 2027, thus boosting the overall residential construction sector.

Following sharp declines in recent years, the volume of new construction should increase by 5.4 percent this year. By 2027, the rate is expected to reach an even stronger 9.1 percent. With stable price developments, this translates to real growth rates of 2.4 and 6.1 percent, respectively.

Renovation and modernization activity remains stable

The sharp decline in new construction was at least partially cushioned in recent years by work on existing buildings. In some cases, it is likely that private households opted for the cheaper option of expanding existing properties rather than undertaking new construction projects. Last year, work on existing buildings accounted for nearly 80 percent of total residential construction. Permits for work on existing buildings have also declined less dramatically in recent years than those for new construction (Figure 8).

Over the course of this year, measures on existing residential buildings are likely to develop steadily. Furthermore, residential property prices remain at a consistently low level, making the renovation of existing buildings attractive in comparison to new construction (Figure 5). Improvements to the

5 Press release from the Federal Ministry for Housing, Urban Development and Building dated November 27, 2025: Bauüberhang aktivieren, Impulse am Wohnungsmarkt setzen: Befristete Effizienzhaus 55-Plus-Förderung startet am 16. Dezember 2025 (in German; available online).

6 German Federal Government (2025): Schneller und einfacher dank „Wohnungsbau-Turbo" (in German; available online).

energy efficiency of existing buildings remains appealing amid rising CO_2 prices. Funding opportunities such as the Young-Buys-Old *(Jung kauft Alt)* program should likewise have a positive impact. Regardless of property acquisition, the government promotes improvements to energy efficiency. Funding was increased again in 2024 as part of the Climate and Transformation Fund *(Klima- und Transformationsfonds)* and will also be available in the coming years.[7]

Work on existing buildings should expand in nominal terms by 3.3 percent in 2026 and 4.6 percent in 2027. In real terms, this translates to growth rates of 0.5 and 1.7 percent respectively.

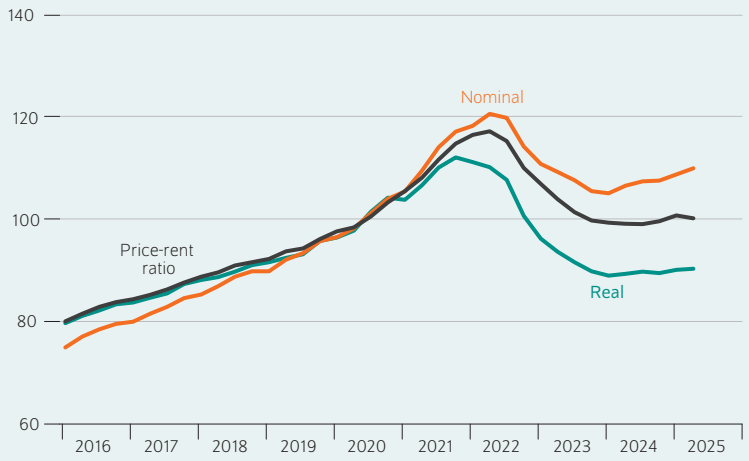
Non-residential building construction awaits economic recovery

Developments in non-residential construction in recent years were driven by Germany's weak economic performance. A decline in orders received in the industrial sector from both domestic and foreign markets reduced the incentives to expand production capacities or invest in new storage space. The tougher financing conditions for companies are also likely to have dampened construction activity. On the other hand, rising demand for data centers to provide digital services and applications in the field of artificial intelligence is likely to have had a supportive effect.[8] Overall, order intake in commercial construction rose slightly last year. In the public sector, which accounts for a smaller share of non-residential construction,[9] new orders have been rising sharply for several years (Figure 3). The order backlog in public building construction also continued to follow a clear upward trend, while commercial building construction recorded sideways movement (Figure 4).

Despite the anticipated economic upturn, non-residential building construction will likely remain subdued initially. Stimulus from commercial construction is expected to stay limited at first, as many companies will probably only expand their investments once the fiscal package's effects strengthen, uncertainty subsides, and demand picks up noticeably. Furthermore, a significant portion of fiscal resources is allocated to infrastructure projects, primarily within the civil engineering sector. Public building construction, however, will likely be somewhat constrained by municipalities' persistently tight budgets.[10]

Figure 5

Residential real estate prices
Index 2010 = 100



Sources: BIS, OECD.

Residential property prices remain at a low level.

Overall, nominal non-residential construction volume is expected to increase by 2.4 percent in 2025, while the price-adjusted volume is expected to decline by 0.7 percent. Nominal growth is also expected in 2026 (1.5 percent), but in real terms there will be another decline (–1.0 percent). The economic recovery is not expected to reach non-residential construction until 2027, when it is expected to grow by 5.2 percent in nominal terms and 2.2 percent in real terms (Table 2).

New non-residential construction dampened by Germany's weak economic performance

Unsurprisingly, investment in new commercial buildings has remained weak in recent years amid Germany's pronounced economic slump. While building permits measured in terms of construction costs for factory buildings have been stagnating for some time, approved costs for retail and warehouse buildings have recently declined slightly. With construction prices having soared in recent years, this translates into significantly fewer new buildings (Figure 6). Also, the demand for additional office space has dropped sharply since 2022. The key driver here is likely the more established use of home office arrangements since the COVID-19 pandemic. About a quarter of all employed people work from home part of the time, and more than half of them do so for at least 50 percent of their working hours.[11]

7 Martin Gornig and Katrin Klarhöfer (2024): Energy-Efficient Building Renovation: Price Adjusted Investments Declining; Trend Reversal Needed to Reach Climate Targets. DIW Weekly Report no. 46, 278–283 (available online).

8 Zhanat Murzakulova et al. (2025): Stand und Entwicklung des Rechenzentrumsstandorts Deutschland. Gutachten im Auftrag des Bundesministeriums für Wirtschaft und Klimaschutz, BMWK-Projekt-Nr.: 115/21–45 (in German; available online).

9 According to DIW construction volume calculations, public construction accounted for around 20 percent of non-residential building construction in 2024. See Bundesamt für Bauwesen und Raumordnung (2025): Forschungsprojekt Strukturdaten zur Produktion und Beschäftigung im Baugewerbe, Ergebnisse (in German; available online).

10 Deutscher Städtetag (2025): Kommunalfinanzen – Themenseite des Deutschen Städtetages: Deutscher Städtetag (in German).

11 Prior to the COVID-19 pandemic, only 13 percent of workers used home office arrangements. Press release from the Federal Statistical Office dated September 25, 2025: Homeoffice 2024 ähnlich verbreitet wie im Vorjahr, wird dennoch an weniger Tagen genutzt (in German; online available).

Table 1

Residential construction volume in Germany

	2021	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
	Current prices in billions of euros							Year-on-year change in percent					
New construction volume[1]	87.5	88.9	84.8	70.0	67.5	71.1	77.6	1.6	−4.7	−17.4	−3.6	5.4	9.1
Construction on existing buildings[2]	189.4	213.1	227.8	236.1	239.7	247.6	259.1	12.5	6.9	3.6	1.5	3.3	4.6
Total residential construction volume	276.9	302.0	312.6	306.1	307.2	318.8	336.7	9.0	3.5	−2.1	0.4	3.8	5.6
	Shares in percent												
New construction volume[1]	31.6	29.4	27.1	22.9	22.0	22.3	23.1						
Construction on existing buildings[2]	68.4	70.6	72.9	77.1	78.0	77.7	76.9						
Total residential construction volume	100.0	100.0	100.0	100.0	100.0	100.0	100.0						
Prices								15.4	7.7	2.9	3.1	2.8	2.8
	Real, chain index 2020 = 100												
New construction volume[1]	98.3	86.5	76.6	61.5	57.5	58.9	62.5	−12.0	−11.5	−19.7	−6.4	2.4	6.1
Construction on existing buildings[2]	96.3	93.8	93.1	93.8	92.4	92.8	94.4	−2.5	−0.7	0.7	−1.5	0.5	1.7
Total residential construction volume	96.9	91.6	88.0	83.7	81.5	82.3	84.5	−5.5	−3.9	−4.8	−2.6	0.9	2.7

1 Estimated values based on estimated construction costs (construction activity statistics), plus surcharges for architects' services and fees, exterior facilities, and the internal activities of investors.
2 Buildings and housing modernizations (including conversion and extension measures) as well as repair services in the construction industry.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

Table 2

Non-residential construction volume in Germany

	2021	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
	Current prices in billions of euros							Year-on-year change in percent					
New construction volume[1]	46.7	50.0	51.2	48.9	48.4	49.0	52.0	7.1	2.2	−4.4	−1.0	1.2	6.1
Construction on existing buildings[2]	64.7	70.1	74.9	78.2	81.7	83.1	86.9	8.4	6.8	4.4	4.6	1.6	4.6
Total non-residential construction volume[3]	111.4	120.1	126.0	127.1	130.2	132.1	139.0	7.9	4.9	0.8	2.4	1.5	5.2
	Shares in percent												
New construction volume[1]	41.9	41.7	40.6	38.5	37.2	37.1	37.4						
Construction on existing buildings[2]	58.1	58.3	59.4	61.5	62.8	62.9	62.6						
Total non-residential construction volume[3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0						
Prices								13.7	7.9	3.1	3.1	2.5	2.9
	Real, chain index 2020 = 100												
New construction volume[1]	95.7	90.2	85.5	79.2	76.1	75.1	77.5	−5.8	−5.2	−7.3	−4.0	−1.3	3.1
Construction on existing buildings[2]	93.0	88.7	87.9	88.9	90.2	89.4	90.9	−4.7	−1.0	1.2	1.4	−0.9	1.7
Total non-residentialconstruction volume[3]	94.1	89.3	86.9	84.9	84.4	83.5	85.4	−5.1	−2.7	−2.2	−0.7	−1.0	2.2

1 Estimated values based on estimated construction costs (construction activity statistics), plus surcharges for architects' services and fees, exterior facilities, and the internal activities of investors.
2 Buildings and housing modernizations (including conversion and extension measures) as well as repair services in the construction industry.
3 Construction volume in commercial and public building construction.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

The most recent data for non-residential building permits show signs of a slight improvement. Significant impetus is also likely to come from the public sector in this area. As a result, a less pronounced decline in new construction volume is expected in the current year. In the wake of the overall economic recovery next year, non-residential construction is likely to regain momentum and expand more significantly.

Nominal new construction activity in non-residential building construction is expected to expand slightly (1.2 percent) in 2026 and strongly (6.1 percent) in 2027. In real terms, this results in a decline of 1.3 percent for the current year. An increase of 3.1 percent is expected for the coming year.

High energy costs drive work on existing buildings

Last year, non-residential construction was primarily driven by work on existing buildings. Companies and public institutions appear to invest more frequently in the renovation of existing buildings. One reason is the persistently high cost of energy, which keeps energy-efficiency measures appealing. The CO_2-price was raised again on January 1 of this year, so the trend is likely to continue.

Measures on existing non-residential buildings are expected to increase by 1.6 percent this year and 4.6 percent next year. Adjusted for price changes, this results in a decline of 0.9 percent for 2026 and growth of 1.7 percent for 2027.

Civil engineering shifts into high gear

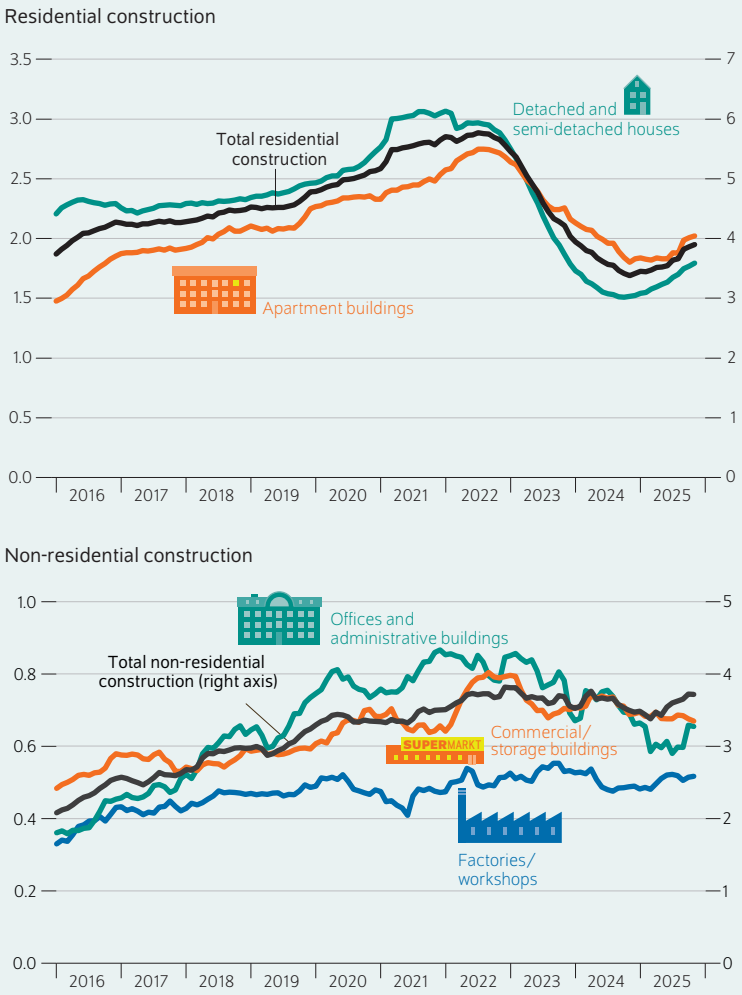
Compared to the pronounced crisis in building construction, civil engineering has been fairly robust in recent years. 2024 even posted substantial real growth of over two percent. Civil engineering is also likely to have expanded noticeably in the past year. While capacity utilization declined in both segments, the drop was less pronounced in civil engineering and utilization remained clearly above 70 percent (Figure 7). Production data further highlights this divide. While civil engineering has seen an almost continuous upward trend since 2022, building construction has experienced significant declines over the same period (Figure 9).

Civil engineering should continue to provide substantial support for the overall construction volume during the forecast period. In recent years, there has been strong growth in new orders for commercial civil engineering (Figure 3), driven by extensive investment projects in the wake of the energy transition, as well as the expansion of fiber optic and mobile communication networks.[12] As a result, the order backlog hit a record high over the course of 2025 (Figure 4). Meanwhile, public civil engineering should receive a boost from the SVIK. Substantial funds are earmarked for modernizing and expanding transportation networks, particularly rail, roads, and bridges. Funding will also be allocated for broadband expansion.

Overall, the nominal civil engineering volume expanded by 5.9 percent last year. Growth rates of just under ten percent are expected this year and next. Strong growth in the public sector is a key factor here. Price trends are likely to continue to weaken slightly for the time being, but are expected to pick up again somewhat in 2027 due to rising (public) demand. In real terms, this results in growth rates of 2.6 percent for last year and 7.3 and 6.7 percent for this year and next year (Table 3).

Figure 6

Construction permits in building construction in Germany
Current prices in billions of euros, twelve-month moving average



Source: Federal Statistical Office, last value November 2025.

Building permits for residential construction are slowly starting to climb.

Construction industry regains growth momentum

After five years of decline, construction volume is set to post real growth for the first time in 2026, with a rise of 1.7 percent expected (Table 4). For next year, growth of 3.4 percent is projected. In both years, real growth in construction volume will be noticeably higher than the expected overall economic growth. Construction price increases are also likely to be higher than consumer price inflation. Construction prices are expected to rise by 2.7 percent in 2026 and 2.9 percent in 2027. Thus, nominal construction volume is likely to exceed 600 billion euros for the first time in 2027. This would mean that just under one-eighth of Germany's total economic output would be attributable to construction volume.[13]

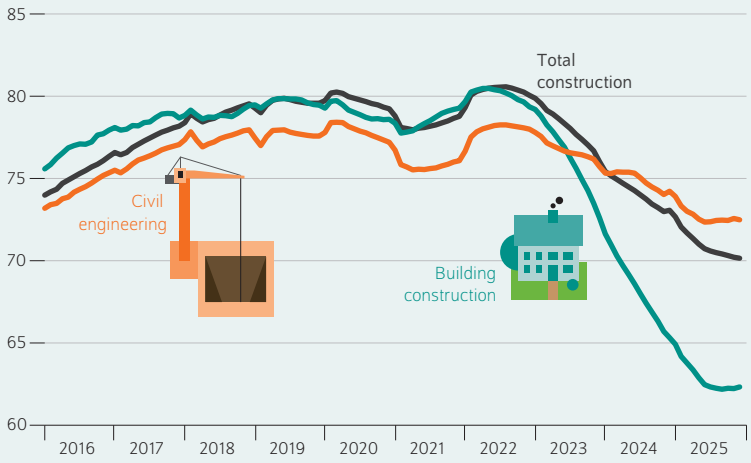
Public construction is driving this surge in growth. In 2026 and 2027, real public construction volume is expected to increase by 6.7 percent in each year. This strong expansion reflects the phased rollout of SVIK spending. Residential and commercial construction, on the other hand, are unlikely to get off the ground this year. However, real construction volume will also rise significantly in these areas next year, with growth of 2.7 percent expected for both residential and commercial construction.

12 Order intake figures also include data for Deutsche Bahn. However, construction volume calculations and national accounts classify Deutsche Bahn investments as public civil engineering.

13 For macroeconomic benchmarks, see Dany-Knedlik et al. (2025), ibid.

Figure 7

Capacity utilization in the construction sector
Percentage of typical seasonal machine utilization



Source: ifo Institute.

Capacity utilization is currently at an extremely low level.

Companies in the main construction sector will be the first to benefit from the turnaround in construction volume. DIW Berlin expects real construction volume for the main construction sector to grow by 2.6 percent in 2026, driven primarily by civil engineering momentum. Growth in finishing trades and other construction services, such as architectural work, will likely remain below one and a half percent initially. In 2027, as residential construction picks up, real growth rates across producer groups should converge more closely. However, the main construction sector would still post above-average growth of 4.1 percent.

Conclusion: Raise productivity, not prices

While the recovery in construction demand is promising, it bears significant downside risks, namely upward price pressures driven by the SVIK rollout.

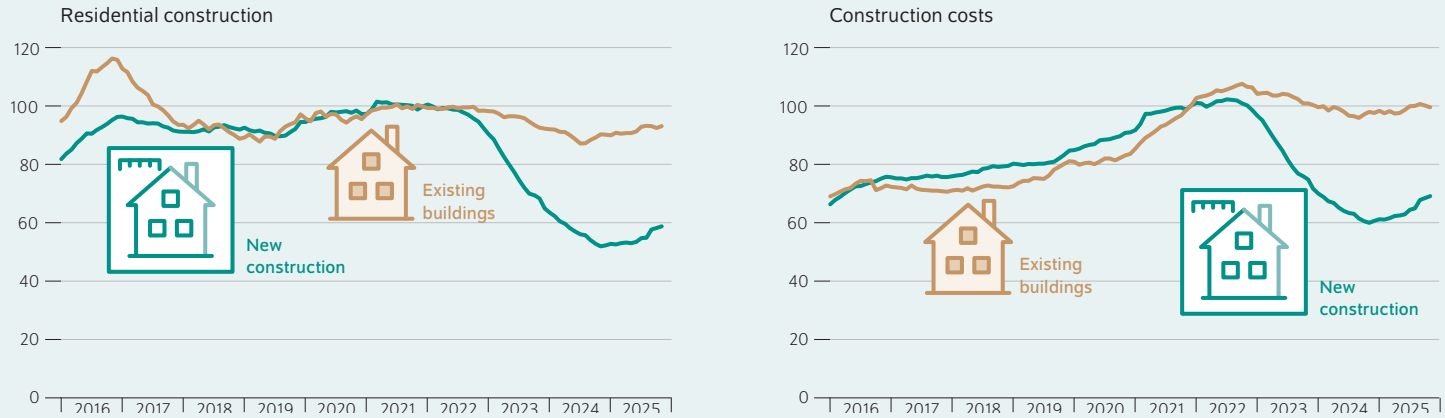
At first glance, meeting the additional demand seems unproblematic. Our projection assumes that the volume of public construction, driven by the SVIK, will increase by ten percent in both 2026 and 2027. At the same time, surveys indicate high underutilization in the construction industry. According to the ifo Institute, current capacity utilization in the construction industry is just 70 percent (Figure 7).

However, the construction industry is highly segmented and the possibilities for shifting capacity between the individual segments as needed are very limited. This is particularly true for building construction and civil engineering. Accordingly, capacity utilization rates in both areas have developed very differently in recent years. Capacity utilization in building construction is currently ten percentage points below that of civil engineering.

At the same time, civil engineering is heavily driven by public sector demand. The expected annual growth in nominal civil engineering volume in 2026 and 2027 will reach just under ten percent in each year. Current capacity utilization in civil engineering stands eight percentage points below the previous peak utilization of approximately 80 percent. In addition, companies within the civil engineering sector

Figure 8

Building permits in residential construction in Germany
Index 2021=100, twelve-month moving average



Source: Federal Statistical Office, last value November 2025.

Building permits for new residential construction are increasing again.

Table 3

Civil engineering in Germany

	2021	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
	Current prices in billions of euros							Year-on-year change in percent					
Commercial civil engineering	23.7	28.4	31.1	33.0	34.8	35.9	38.3	19.9	9.5	6.1	5.6	3.2	6.7
Public civil engineering	56.9	61.3	64.4	68.2	72.3	81.8	91.1	7.8	5.0	5.8	6.1	13.2	11.3
Total civil engineering	80.6	89.7	95.5	101.2	107.1	117.7	129.4	11.4	6.4	5.9	5.9	9.9	9.9
	Shares in percent												
Commercial civil engineering	29.4	31.6	32.6	32.6	32.5	30.5	29.6						
Public civil engineering	70.6	68.4	67.4	67.4	67.5	69.5	70.4						
Total civil engineering	100.0	100.0	100.0	100.0	100.0	100.0	100.0						
Prices[1]								17.2	7.3	3.6	3.2	2.5	3.0
	Real, chain index 2020 = 100												
Commercial civil engineering	93.0	87.5	88.1	90.1	92.0	93.2	97.2	−5.9	0.7	2.3	2.2	1.3	4.3
Public civil engineering	100.8	96.2	94.8	96.9	100.0	109.4	117.5	−4.5	−1.5	2.3	3.1	9.4	7.4
Total civil engineering	98.5	93.6	92.8	95.0	97.4	104.4	111.5	−4.9	−0.8	2.3	2.6	7.3	6.7

1 As there is no detailed information on price changes for civil engineering, the same price changes are assumed for both this sector and non-residential building construction.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

Table 4

Key Figures for construction volume development in Germany

	2021	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
	Current prices in billions of euros							Year-on-year change in percent					
Total construction volume	468.87	511.86	534.13	534.34	544.48	568.60	605.09	9.2	4.4	0.0	1.9	4.4	6.4
Residential construction	276.94	301.98	312.57	306.09	307.19	318.78	336.74	9.0	3.5	−2.1	0.4	3.8	5.6
Commercial construction	113.44	126.01	132.42	134.25	139.67	142.06	149.16	11.1	5.1	1.4	4.0	1.7	5.0
Public construction	78.49	83.87	89.14	94.00	97.62	107.76	119.20	6.8	6.3	5.4	3.9	10.4	10.6
Prices								15.3	7.7	3.1	3.2	2.7	2.9
	Real, chain index 2020= 100												
Total construction volume	96.50	91.34	88.49	85.86	84.79	86.20	89.16	−5.3	−3.1	−3.0	−1.2	1.7	3.4
By construction sector													
Residential construction	96.91	91.55	87.96	83.70	81.51	82.25	84.49	−5.5	−3.9	−4.8	−2.6	0.9	2.7
Commercial construction	93.71	89.31	86.54	84.86	85.47	85.38	87.65	−4.7	−3.1	−1.9	0.7	−0.1	2.7
Public construction	99.17	93.58	93.28	95.21	96.16	102.58	109.48	−5.6	−0.3	2.1	1.0	6.7	6.7
By producer													
Main construction industry	97.03	92.58	89.42	87.87	87.47	89.75	93.47	−4.6	−3.4	−1.7	−0.5	2.6	4.1
Finishing trade	95.96	94.74	93.76	89.87	88.23	89.25	91.95	−1.3	−1.0	−4.1	−1.8	1.2	3.0
Other	96.65	88.20	83.82	80.96	80.00	81.02	83.61	−8.7	−5.0	−3.4	−1.2	1.3	3.2

Sources: Federal Statistical Office; DIW Construction Volume calculations.

have also become highly specialized, for example in pipeline construction, road construction, or rail construction. In many cases, companies only operate regionally. Technical and geographical specialization further limits the possibilities for substitution.

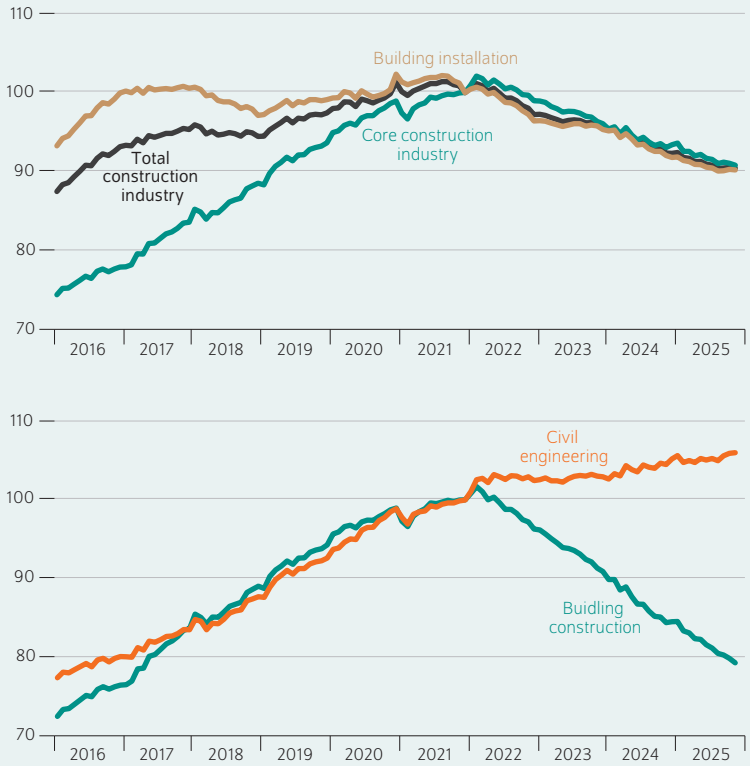
Even in building construction, which is experiencing historically low capacity utilization, there are fears of short-term bottlenecks in some areas, which could lead to corresponding price effects. There are likely to be significant differences in capacity utilization within building construction between shell construction and finishing work. This is indicated by the current price increases, which are 50 percent higher in finishing work.[14] Moreover, certification requirements by local network operators often restrict the short-term capacity adjustments in areas such as plumbing and electrical installations.

This implies that the SVIK rollout should be accompanied by monitoring capacities in order to avoid price increases triggered by potential short-term bottlenecks. Coordination

14 Press release from the Federal Statistical Office dated January 9, 2026: Baupreise für Wohngebäude im November 2025: +3,2 % gegenüber November 2024 (in German; available online).

Figure 9

Production in the construction industry
Indexed, monthly averages 2021 = 100



Source: Federal Statistical Office.

Production in civil engineering is slowly picking up, while building construction is still in decline.

would be especially welcome in civil engineering, for instance through a task force bringing together different levels of government. Otherwise, large portions of public investment could fail to lead to improvements in infrastructure and climate protection, instead being squandered on price effects.

In the medium term, the main focus must be on increasing productivity in the construction sector in order to curb price effects. In recent years, unlike in other sectors and countries, labor productivity in the construction industry has not risen but fallen dramatically.[15] The exact reasons behind the significant productivity slump in many areas of construction remain largely unclear. There is an urgent need for rigorous empirical research, followed by a coordinated effort from policymakers and industry to boost productivity in Germany's construction sector. Without boosting productivity in the construction industry, the billions in subsidies will not be enough to sustainably improve Germany's infrastructure and housing supply.

15 Michael Grömling, Michael Voigtländer and Steffen Wetzstein (2025): Internationale Produktivitätsunterschiede in der Bauwirtschaft. Was kann Deutschland von seinen Nachbarn lernen? Gutachten des IW Köln im Auftrag des Hauptverbandes der Deutschen Bauindustrie (in German; online verfügbar); Carsten-Patrick Meyer (2023): Kapitalintensität und Arbeitsproduktivität im Baugewerbe. Forschungsprojekt im Auftrag des Bundesministeriums für Wohnen, Stadtentwicklung und Bauwesen. BBSR Online-Publikation Nr. 45 (in German; online verfügbar).

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