

Economic Comment

21 November 2024

Weaker construction and consumer sentiment

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Construction production decreased by 9.6% y/y in October, after -9.0% y/y in September, and amid expectations for reduction of the decline to 6-7%. The reading comes at a time of heightened concerns about Polish's economic outlook following weak data on activity in September and a lower-than-expected flash estimate of 3Q GDP. However, we expect a significant rebound in the other two key monthly data items, industrial production and retail sales, due early next week. The GUS consumer survey for November, with the second consecutive decline in optimism, was also not encouraging.

Construction output showed no signs of recovery

Construction production decreased by 9.6% y/y in October, after a 9.0% y/y drop in September. The deterioration of the situation was quite a surprise for the market, hoping, as we did, to see a solid improvement in the annual growth rate, giving a result about 3 percentage points better than the actual one. Seasonally adjusted construction production declined by 2.7% m/m (after a 0.9% improvement in September) and 11.0% y/y (down from -9.3% y/y in September, this makes it the worst growth reading since March 2021). As a result, the seasonally adjusted volume of production reached its lowest level since May 2021.

In October, only the construction of buildings increased its contribution to the y/y growth of total construction output, but it was still down 7.9% y/y. The decline in civil engineering in specialized works exceeded 10% y/y. Investment-type works fell by 11.9% y/y (in September it was -12.2% y/y), and maintenance and repair works decreased by 4.0% y/y (in September -1.1% y/y).

The already unblocked stream of EU funds is flowing into Poland, but it takes time to see it translate to improved construction output. In our opinion, the next readings will be better, although still below zero, and the sector may only switch to regularly showing positive production growth during the first half of 2025.

This surprisingly low reading of construction production comes at a time of heightened concerns about Polish's economic outlook following weak data on activity in September and a lower-than-expected flash estimate of 3Q GDP. However, we expect a significant rebound in the other two key monthly data items, industrial production and retail sales, due early next week.

Higher running projects indicator on the housing market

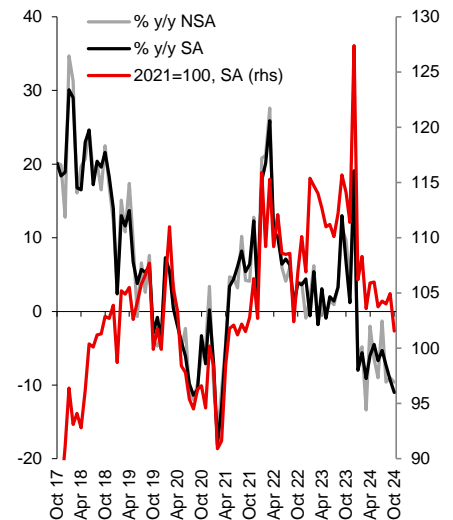
In October, 17.1k dwellings were completed, 17.3% less than a year earlier. The marked rate of decline is mainly the effect of the high base of October 2023. However, in our opinion, the number of completed dwellings will remain reduced in the coming months before there is a moderate upward impulse related to the increase in the number of construction starts in 1H24. The number of building permits amounted to 24.3k and increased by 1.5% y/y, and the number of construction starts amounted to 23.4k and increased by 18.4% y/y. These numbers have translated into a rise in the running projects indicator, but we are expecting a decline in market activity in the coming quarters as demand in 2025 is expected to remain under pressure.

Consumer optimism still down

Consumer confidence deteriorated in November for the second month in a row. The current indicator slid to -17.1pts from -15.8pts in October, while leading indicator remained unchanged at -11.6pts. The current indicator fell slightly below the long-term average, while the leading one remained still above this mark.

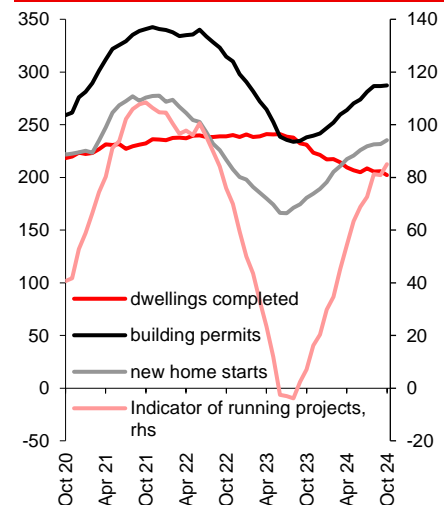
All but one subindicators of the current index went down, with the strongest move recorded by expected and current economic situation. Also the index for big-ticket item purchases

Construction output in Poland



Source: GUS, Santander

Housing market statistics, 12m sums



Source: GUS, Santander

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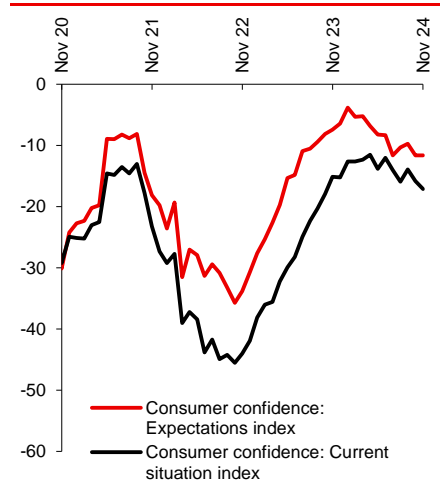
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slipped, and was the lowest since August 2024. The leading index managed to stay unchanged thanks to better assessment of conditions for saving money.

We think there is not much upward potential for consumer confidence in the upcoming months, with somewhat less optimistic news from the economy and labour market as well as expected slowdown in wages. But in our view we should not see a major deterioration either. This will help the private consumption remain relatively robust in 2025 yet some slowdown is to be expected in 2024.

Consumer confidence, pts



Source: GUS, Santander

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