Another lacklustre month for Polish construction

In August, construction and assembly production fell by 9.6% year-on-year, worse than expected. Activity in the sector remains weak across the board. A recovery is unlikely to come before 2025, as reconstruction efforts after the flood are unlikely to outweigh weakness almost everywhere else

Construction workers in Warsaw, Poland

In August, construction and assembly production fell by 9.6% YoY, worse than expected (-6.5%), following a 1.4% YoY decline in July. The acceleration in the production decline was mostly influenced by a less favourable pattern of working days - August had one fewer than in 2023, and July had two more. However, the overall situation in industry is negative, and it remains one of the weakest spots of the Polish economy.

Civil engineering construction, primarily related to public infrastructure investment, fell by 10.6% YoY (after rising 0.8% YoY in July). The weakness of this category mostly reflects the slow start of projects co-financed by EU funds under the Recovery Fund and the new EU perspective. Repair and construction work related to flood recovery may locally improve construction activity in the remainder of 2024, but nationwide it is unlikely to outweigh the slow start-up of major infrastructure projects. The scale of this year's flooding is limited in territory and less severe than previous major floods.

The weakness in building construction continues. Output in this category fell by 7.9% YoY, following an 8.3% YoY decline in July. This most likely primarily reflects the difficult situation in residential construction, but weak activity in commercial construction persists as well. Residential developers continue to face an oversupply of expensive apartments - projects already underway are being completed, and demand for residential real estate remains weak. As a result, the number of completed apartments on offer is growing. Potential buyers are probably waiting for details of the postponed government support for the housing market. High housing prices and interest rates are also important obstacles. Although the number of housing starts has risen noticeably recently, this most likely represents the notification of new developments, rather than the actual start of construction work.

We continue to believe that we must wait until 2025 for a major rebound in housing construction. There is no acceleration in the launch of EU co-financed projects, and the housing support programme remains in limbo in the face of opposition from parts of the ruling coalition. The outlook for commercial construction, such as warehouse space, also looks weaker due to market saturation. Although capital expenditures for 2Q24 were surprisingly good, this was probably due to defence spending rather than commercial or infrastructure investment.

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