

## Poland: Construction activity shrinks in May

In May, construction output fell by 0.7% year-on-year, much worse than expected. This is primarily the result of a large decline in the construction of buildings, which was not offset by growth in categories related to infrastructure investment, such as civil engineering construction



Construction in May dropped by 0.7% year-on-year, compared to the +1.5% consensus forecast, driven by a sharp dip in the construction of buildings, while civil engineering activity remained robust. In April, overall construction output rose by 1.2% YoY, civil engineering by 4.8% YoY, while building construction contracted by 6.4% YoY.

In our view, the weak performance in building construction is likely to be a one-off, nonetheless, the difficult business climate in this category will continue in the coming months. Demand for apartments remains subdued, due in part to high interest rates in Poland. Parliament recently introduced a new programme which offers low-cost housing loans to first-time buyers, but it will not significantly reverse this trend. The initiative comes with many strings attached, excluding many of those potentially interested in using it.

Since mid-2022, the number of apartments under construction has clearly been declining but is still historically at a relatively high level. According to our estimates, apartments already on offer can cover demand for up to a year ahead. In view of the rapid increase in the cost of construction

work in previous months, weaker demand for apartments should continue to be reflected in a decline in the number of units sold, rather than a decline in prices. In the construction of buildings, however, selected areas such as the construction of logistics centres and warehouse halls stand out on the positive side.

The situation in infrastructure construction, on the other hand, is shaped by the closing of projects still financed from the "old" EU budget, which will expire at the end of this year. This category is to remain the main driver of construction this year.

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