

Poland's terrible construction slowdown

Construction output in Poland fell into negative territory in October. Industrial production surprised positively, but it wasn't enough to offset that construction drop. We can easily see a further slowdown in GDP and investment in the fourth quarter



Construction of a bridge in Gdansk, Poland

Construction

Construction output decelerated in October from 7.6% to -4%YoY, strongly below market expectations (6.2%). The surprise is related to a contraction in infrastructure spending – the numbers in the civil engineering category shrank from 15.8% to -8.6YoY. Recent payments of EU funds suggest these conditions may persist in the coming months.

We also see a moderation in the real estate market. The buildings' construction category also fell into negative territory (-0.4%). Today's data suggests a further slowdown of investment in the fourth quarter. Right now, we estimate that will fall from 5.2% to 2-3% year-on-year.

Production

Industrial production surprised positively, decelerating from 5.6 to 3.5%YoY, above the market forecast of 2.5%. Seasonally adjusted figures show a modest acceleration from 3.5 to 3.7%YoY. Export sector production outperformed expectations for another consecutive month with double-

digit growth in electrical equipment and electronics. The contribution of non-manufacturing components (i.e. energy, utilities) was also positive and added approximately 0.4pp to the headline figure.

Polish industry is still reasonably immune to the recent German slowdown, in fact even more than its CEE peers. This reflects the fact that Poland has a lower share of automakers in manufacturing. Polish industry is also benefiting from strong consumption in the eurozone. However, a recent contraction in the PMI services component suggests that demand is at risk.

We expect soft figures in November due to negative calendar effects. Still, industrial production should maintain its expansion. Furthermore, a recovery should occur in December when the calendar effect is more supportive, so we're only expecting a limited moderation in production in the fourth quarter.

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