Polish construction data confirms economic rebound

After data on industry and retail sales for September, which was stronger than we had expected, construction data also surprised to the upside. The picture for the third quarter looks better than before and we expect 0.5% year-on-year GDP growth. The Polish economy has now bottomed out and is projected to expand by 0.4% in 2023 and at least 2.5% in 2024

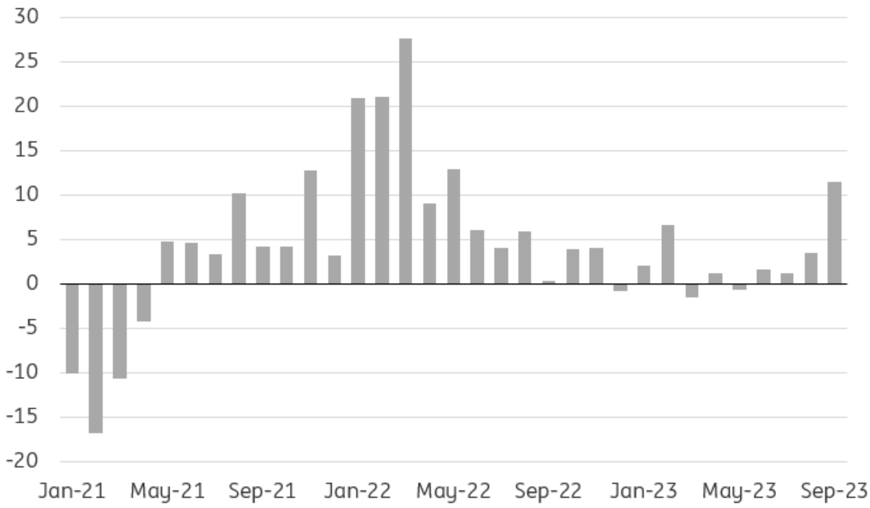
Construction in Warsaw, Poland

Broad-based improvement in construction activity in September

Construction output rose by 11.5% YoY in September (ING: 4.5%; consensus: 5.9%), following an increase of 3.5% YoY in August. This is another sign that the economy is rebounding. Robust growth in infrastructure (civil engineering works +17.9% YoY, up from 11.8% in August) was accompanied by a rebound in building construction (+3.9% after -5.0% in the previous month) and double-digit growth (10% YoY vs 0.9% in August) in specialised works. The improvement in construction is also visible in the seasonally-adjusted data: +3.7% month-on-month.

Construction is another area of the Polish economy showing signs of revival

Construction output, %YoY



Source: GUS.

Civil engineering supported by EU funds

Continued double-digit growth in civil engineering in recent months can be attributed to the public investment co-financed by European funds. According to the t+3 rule, 2023 is the last year in which funds from the 2014-20 financial perspective can be disbursed. The end of the EU's budget perspective usually brings an accumulation of spending, so this category is set to expand in the following months.

Revival in building construction amid easier access to mortgages

We associate the rebound in building construction with (1) the easing of the regulatory buffer that banks are obliged to use while calculating credit eligibility, (2) the fall in interest rates on new housing loans as a consequence of central bank rate cuts and expectations of further cuts, and (3) the launch of the government's '2% Credit' programme in July. The aforementioned factors increased the credit eligibility of potential borrowers and translated into increased demand for new mortgages. Faced with the prospect of stronger demand for housing, construction companies have responded with increased supply.

Improving outlook for specialised works

The greatest volatility in recent months has been in specialised works, which cover the various stages of the construction process, from the very beginning (demolition, land levelling) to works associated with the final stages (water, heating, electrical installations, etc.). It's likely that, with the recovery of building construction activity, we will see an increase in specialised works, especially installation works.

Economic rebound already on the way

Recent months have brought signs of a recovery in construction activity, which fits into the overall picture of the Polish economic rebound. We think building construction will recover even further. The situation in infrastructure will depend on the rapid mobilisation of EU funds, including the Recovery and Resilience Fund. Without this, there is a risk we could see a significant decline in the inflow of European funds vis-à-vis 2023 (the transition period between EU budget perspectives).

September data from the real economy turned out to be stronger than our forecasts. As a result, we now estimate that GDP growth in 3Q23 amounted to 0.5%. We maintain our forecast for 2023 at +0.4%. In 2024, we forecast economic growth of 2.5% with risks skewed to the upside.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl