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Economic Comment

Building activity moderate, housing booming

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Construction output added 7.6% y/y in September, a bit stronger than expected. We are expecting construction growth to remain in one-digit area in the months to come, given that the peak in EU funds utilisation is already behind us. Still, housing sector is likely to continue to deliver high growth rates. First business sentiment indicators for October showed a rebound in industry, but further deterioration in retail trade and services. The data are in line with our forecast of GDP growth decelerating to about 4% y/y in 3Q19 and slightly below 4% in 4Q from 4.5% y/y in 2Q19.

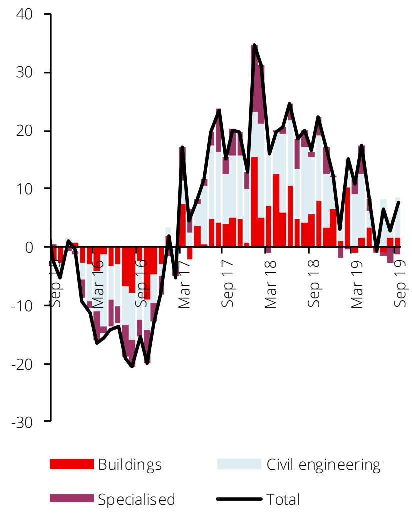
Construction output stronger than expected

Construction output added 7.6% y/y in September, a bit stronger than expected (consensus: 6.7% y/y, we: 6.0% y/y). Growth in the sector was generated mostly by civil engineering (+15.8% y/y), with some growth in construction of buildings (5.3% y/y) and decline in specialised construction (4.5% y/y). Housing construction remained strong with 27.4% y/y increase in new houses. 12M sum of new houses surpassed 200 thousand for the first time since comparable data are available (1991). Building permits advanced by 26.9% y/y (and hit 24.9k, the highest value since comparable data are available – 2001) and home starts expanded by 10.8% y/y. We are expecting construction growth to remain in one-digit area in the months to come, given that the peak in EU funds utilisation is already behind. Still, high number of new projects in housing construction is likely to secure high growth rate in this subsector. Average growth of construction was at 5.6% y/y in 3Q19 versus 8.7% y/y in 2Q19. The data are in line with our forecast of GDP growth decelerating to about 4% y/y in 3Q19 and slightly below 4% in 4Q from 4.5% y/y in 2Q19.

Mixed message from October business survey

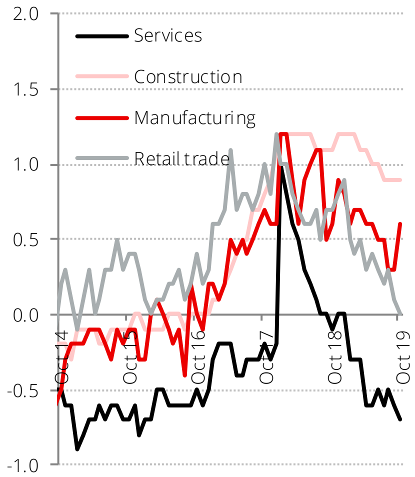
First business sentiment indicators for October showed a rebound in industry, but further deterioration in retail trade and services. Importantly, the rebound in industry came from the most severe depletion of stocks of finished products since 2008, while new orders and expected output gauges remained depressed. Retail trade and services sectors turned even more bearish on future demand (the lowest readings of these sub-indexes in c6 years). As a consequence, the current assessment part of the overall sentiment index rose to the highest level since March, while the prognostic part of the index kept declining and went below the long-term average for the first time since January 2017. The publication does not look like a positive turning point.

Growth structure of construction output, % y/y



Source: GUS, Santander

GUS business sentiment indicators by sector



Source: GUS, Santander

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