21 January 2020

Economic Comment

Construction falling, wages slowing

Grzegorz Ogonek, +48 22 534 19 23, grzegorz.ogonek@santander.pl
Marcin Luziński, +48 22 534 18 85, marcin.luzinski@santander.pl

Construction output fell in December by 3.3% y/y, while we expected a less pronounced decline by 1.6% y/y and consensus forecasted a small rise by 1.0% y/y. Weak readings supports our forecast of further deceleration of fixed investment, and thus of GDP growth in 4Q19. December wage growth was 6.2% y/y vs 6.1% market expectations and our 5.6% forecast, but its 3M average kept going down. December corporate employment growth remained at 2.6% y/y, in line with expectations.

Construction still contracting

Construction output fell in December by 3.3% y/y, while we expected a less pronounced decline by 1.6% y/y and consensus forecasted a small rise by 1.0% y/y. Total output was dragged lower by construction of buildings (-8.5% y/y) and by specialised works (-4.1% y/y), while civil engineering stagnated (0.4% y/y).

Interestingly, housing construction showed a marked rise by 14.8% y/y, so the weak output in construction of building could be attributed mostly to non-housing, which could have fallen by as much as 20% (our estimate based on the fact that non-housing makes up about 65% of the category). Housing, on the other hand, seems to remain robust, with 43% y/y rise in house starts and 4% y/y rise in building permits.

The negative trends in construction (with an exemption of housing) are likely to hold for some time, even despite the very favourable weather conditions. Construction will be undermined by weak activity in the public sector and by worsening investment sentiment in the private sector. Weak readings supports our forecast of further deceleration of fixed investment, and thus of GDP growth in 4Q19 (3.7% y/y versus 3.9% y/y in 3Q19).

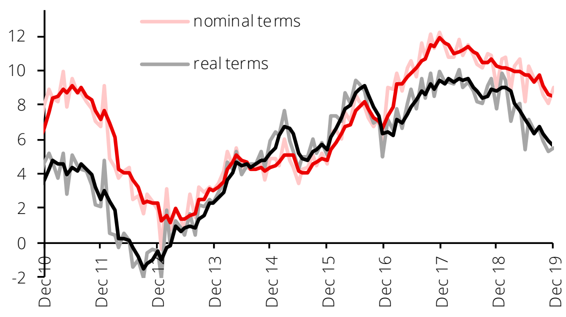
Wage growth managed to rebound above 6%

December wage growth was 6.2% y/y vs 6.1% market expectations and our 5.6% forecast, following a surprisingly low November print of 5.3%. We assumed that the relative weakness seen in the previous months will carry over to December. Bear in mind the December print is often distorted by bonus payments in mining, and not necessarily expresses the state of the labour market (sectoral details due 27 Jan). Note that the 3M moving average of wage growth kept going down.

The next reading will include the large rise of minimum wage (15.6%) which may also create wage pressure among those with higher earnings. The rapid increase of inflation at the turn of the year may serve as another reason for higher wage pressure. On the other hand the economy is already slowing down. We think wage growth goes up to almost 7% y/y in January, but the 2020 average could be close to 6%.

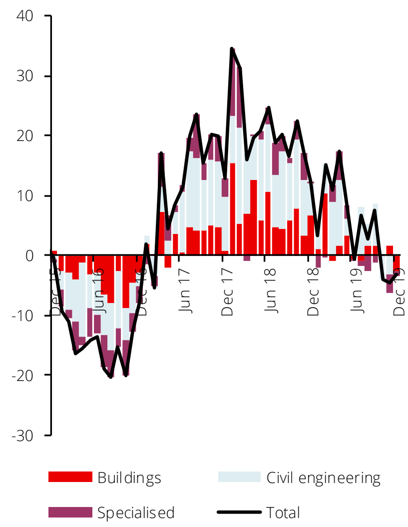
December corporate employment growth remained at 2.6% y/y, in line with expectations. Taking into account the December rise of CPI inflation, real wage bill growth was 5.5% y/y and the 4Q19 average was 5.6%. This compares to 6.7% y/y average for 3Q19 and 7.9% for 1H19. We expect however that private consumption remained robust in 4Q19 thanks to higher social transfers in 2019.

Wage bill estimate based on corporate sector data, % y/y, with 3M moving averages



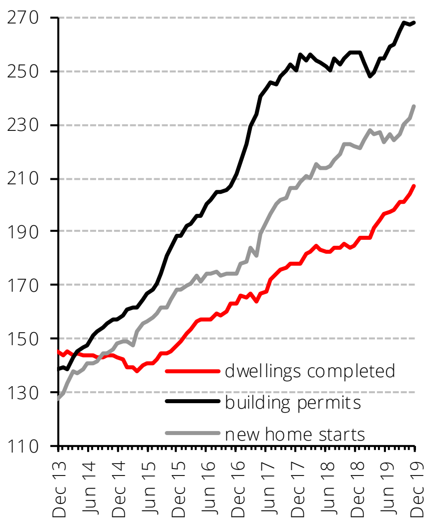
Source: GUS, Santander

Breakdown of construction output, %y/y



Source: GUS, Santander

Housing market tendencies (12m moving sum)



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.