

23 October 2023

Economic Comment

Construction goes higher, GDP revision

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In September, construction output rose by 11.5% y/y in constant prices. The market expected 5.9% y/y, we had anticipated a rebound to 8.7% y/y. This is the second consecutive positive surprise in this sector and as such it reinforces the signal of an economic rebound in Poland after good September industrial production and retail sales data. In the housing market, September saw a rebound in new permits and house starts with a falling number of housing completions. Following September's data, we see upside risks to our forecast of +0.3% y/y economic growth in 3Q23. Revised quarterly national accounts data showed that annual GDP growth remained unchanged in 1Q and 2Q23, while GUS revised up its estimate of 2Q growth in seasonally adjusted q/q terms to -1.4% from -2.2%, but slightly lowered its estimate for 1Q to +1.3% from +1.6%.

Construction output significantly above expectations in September

In September Polish construction output rose 11.5% y/y. The market expected 5.9% y/y while we thought a rebound to 8.7% y/y was likely. This is the second substantial positive surprise in a row by this sector (August print was 3.5% y/y vs. 1.1% market expectations). In seasonally adjusted terms the rebound was worth 3.7% m/m and came after +2.0% in August.

All main components visibly increased their contribution to y/y headline growth, with civil engineering still playing key role and rising 17.9% y/y. Construction of buildings showed a 3.9% y/y rise (the first positive print since October 2022) and specialized works were up 10.0% y/y (the strongest pace since March 2022).

Some of the credit for such a strong overall September print goes to statistical base effect and positive working day difference, but even correcting for these we see the data as a signal of the economic recovery, especially that it coincided with above-consensus September readings of industrial output and real retail sales. We think the construction production can show high single-digit growth rate on average in 4Q23.

Housing market - increase in the projects-in-progress indicator

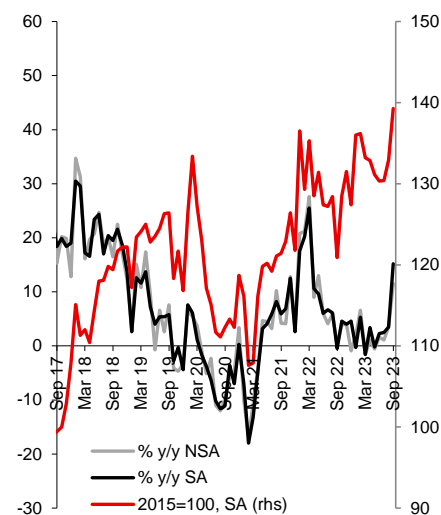
In September, 16.3k dwellings were completed, 24.7% less on a yearly basis and 10.8% less than in August. Nevertheless, the number of building permits issued in September was 4.2% higher than last year, at 23.2k - the highest since June 2022. The number of new house starts was also the highest since June last year, at 19.1k (20.4% y/y and 6.1% m/m), thus approaching the results from 1H2022, when average housing starts per month equalled around 20k. Altogether, the September data caused the value of our housing projects-in-progress indicator to rise for the first time since the middle of last year, to 2.1 pts from -4.2 pts in August.

The new data suggest that the positive momentum in the credit market is resulting in a gradual adjustment of supply in the housing market, although in the short term the increased demand is likely to be offset by further increases in house prices.

GDP revision of quarterly data - more consumption

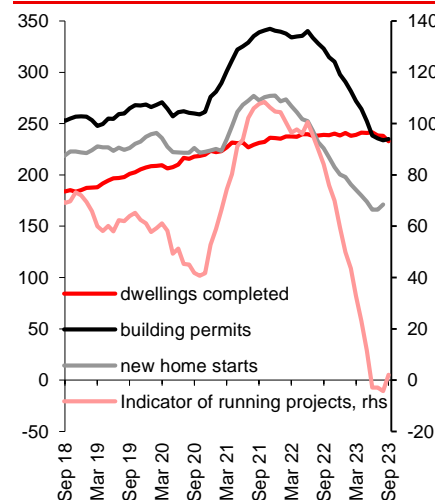
Revised quarterly national accounts data showed no changes to previous estimates of annual GDP growth in 2023 (-0.3% y/y in 1Q and -0.6% y/y in 2Q), while growth estimates for the last three quarters of 2022 went up by 0.2 percentage points. More changes were made to the growth structure: in the current year data, estimates of net exports were lowered, while inventories and investment were raised. In contrast, in the data for 2022, estimates of private and public consumption went up and inventories went down - by roughly the same amount in each quarter.

Construction production in Poland



Source: GUS, Santander

Housing market tendencies, 12m sums



Source: GUS, Santander

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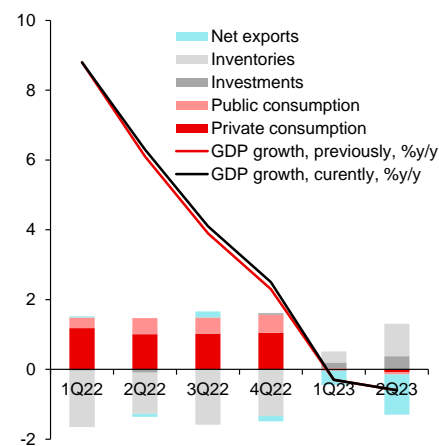
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Traditionally, more volatility appeared in the seasonally adjusted data. In the case of GDP growth, the GUS revised upwards its estimate for 2Q23 to -1.4% q/q from -2.2% q/q, but slightly downgraded its figure for 1Q23 to 1.3% q/q sa from 1.6% q/q sa (i.e. the GUS decreased the volatility in the quarterly growth). The revision mainly affected consumption, whose growth rate was lowered to -0.3% q/q sa from +0.2% q/q sa in 1Q23 and increased to 0.8% q/q sa from 0.6% q/q sa in 2Q23. Estimates of public consumption and inventories also went down.

As for the previous year's data, 1Q22 was revised up to 3.6% q/q from 3.2% q/q. This change was mainly made possible by shifts in consumption, which was revised upwards in 1Q22 to 2.6% q/q from 1.3% q/q. Other changes in the GDP structure were of lesser importance.

Overall, the data revisions do not affect our estimates of future GDP growth. In the second half of 2023 we expect a recovery which should bring annual GDP growth back above zero. In 2024, we expect GDP growth to reach 3% y/y.

GDP revision by GUS – path comparison and changes of main components' growth contributions



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