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Economic Comment

Freeze of construction works

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Construction output fell by 6.1% y/y in January, which was a huge miss vs. expectations (us and the market: +5.5% y/y) and December's +14% y/y. We blame the weather and assume that y/y production will soon turn positive. There have been further signs of recovery in the housing market, including a 34.0% y/y increase in building permits, but the momentum in housing completions remains negative, at -22.7% y/y. Although the main consumer sentiment indices for February surprised us slightly downwards, the key components from the point of view of the consumption outlook performed quite well and we stick to the view that it is consumers who will kick-start the Polish economy this year.

Major miss in construction, but we are not worried

Construction output declined by 6.1% y/y in January, delivering a huge miss versus expectations (us and market: +5.5% y/y) and December's +14% y/y. In seasonally-adjusted terms, output fell by a whopping 16.5% m/m and this was the second worst result since comparable data are available.

Civil engineering output declined by 10.5% y/y, construction of buildings by 7.3% y/y. Only specialised works managed to stay above water, printing +0.5% y/y. Investment works declined by 2.1% y/y and renovation works by 12.3% y/y.

We are not very concerned about these weak numbers, though. Bear it in mind that recently the construction output has been very volatile, with strong decline in sa terms coming after +8.5% m/m sa in December. Additionally, January's result could have been affected by adverse weather conditions (average temperature was by 2°C lower than a year ago, with heavy snowfall). Note also that January is the weakest month of the year as regards total output volume, making it easier to see strong swings in growth rates.

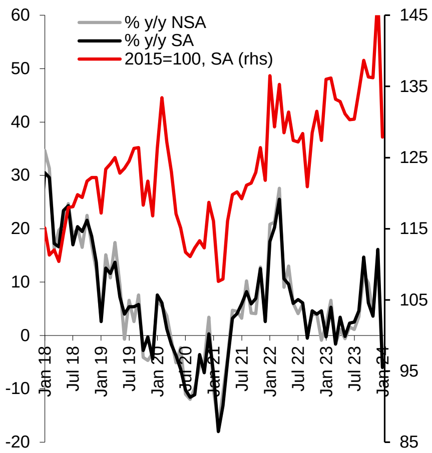
We assume that he headline number is likely to go back to black soon. However, a concern would be advised if such negative readings repeat in the following months. Positive news about possible soon disbursement of Recovery Funds gives hope for a stronger upward swing in construction in late 2024.

New signs of revival in the housing market

In January, 14.8k dwellings were completed, 22.7% less than a year ago. However, the number of issued building permits increased by 34.0% y/y, i.e. at the highest rate recorded since May 2021 (though in part due to the effect of a relatively low base), and accelerated notably from 7.3% y/y in December. Moreover, the annual growth rate of started construction projects continued its upward trend, rising from 45.5% y/y in December to 67.0% y/y, which is also the highest rate registered since May 2021 (again, in part due to a relatively low statistical base). The number of dwellings under construction rose for the first time since October, from 801.8k in December to 802.8k in January, leading to another gradual increase in their annual growth rate, from -3.8% y/y to -2.5% y/y, as well as to another sharp gain recorded by our proxy measure of running housing construction projects, this time by 9.5 pts, bringing it up to 30.2 pts, the highest since April.

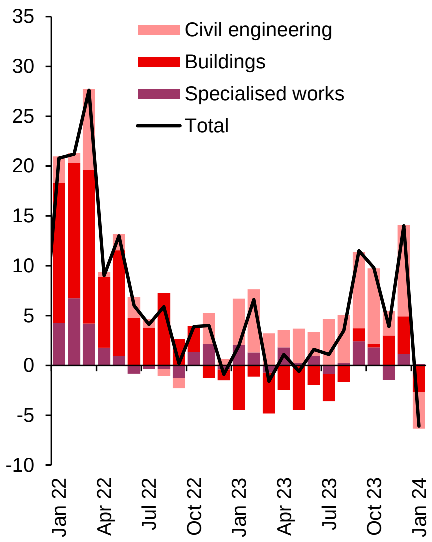
Overall, although some of the eye-catching growth rates stem in part from statistical effects, the newest data imply that the developments in the housing market are gaining momentum. Still, some more time is needed until the number of dwellings under construction reaches the levels from the previous years. Until that levels are achieved house prices will likely continue rising, though perhaps at a somewhat slower pace due to the end of the "Safe 2% Credit" programme.

Construction output, % y/y



Source: GUS, Santander

Construction breakdown, % y/y



Source: GUS, Santander

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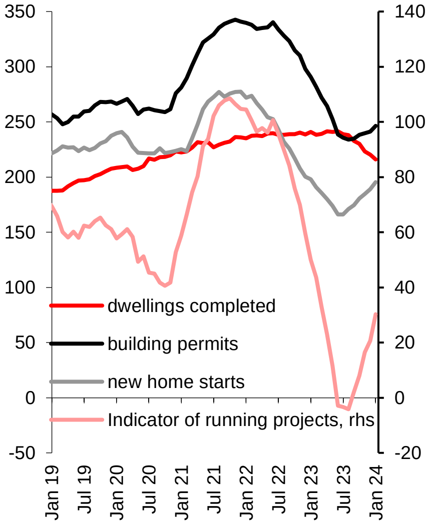
In February consumer confidence surprised marginally to the downside

The aggregate index of current situation stayed at -12.6 pts vs. expectations for a further 1.5-point rise and the aggregate expectations index declined by 1.5 pts (that is its first m/m drop since October 2022). Still, the levels of these indices are quite strong compared to their long-term averages: the former is 3.6 pts above and the latter 13.3 pts above.

Also, the largest monthly gain was seen in the major purchases component of the survey which reached the highest level since October 2021. Polish consumers also felt that their current financial situation improved in January. The components that were responsible for the weakness of headline prints were expected economic situation and expected own financial situation.

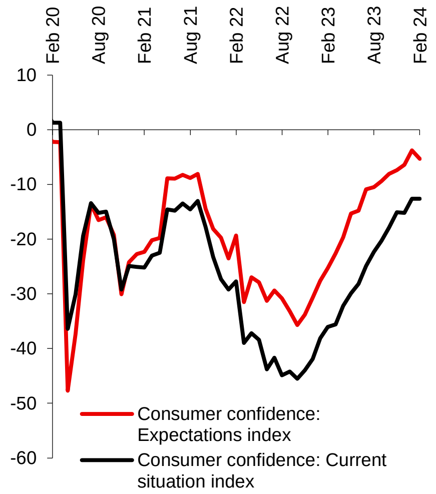
Given the record growth of real wages in January (the strongest since 2008) and the increases in social transfers this year (e.g. child benefit, pensions) we expect consumer confidence to move even higher in the coming months and private consumption to drive the recovery of the Polish economy this year.

Polish housing market tendencies, 12M moving sum, in thousand units



Source: GUS, Santander

Consumer sentiment in Poland, pts



Source: GUS, Santander

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