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Economic Comment

Another disappointment in construction

Bartosz Białas, tel. 517 881 807, bartosz.bialas@santander.pl

Piotr Bielski, tel. 691 393 119, piotr.bielski@santander.pl

Marcin Luziński, tel. 510 027 662, marcin.luzinski@santander.pl

Construction output in April was again weaker than forecast, falling by 4.2% y/y, which is not a good sign of progress in the investment recovery. However, we maintain our view that investment will gradually accelerate in 2025 and this should also be evident in the construction data. The economic climate in construction remained stable in May, in manufacturing and transport it deteriorated slightly, in trade it improved slightly, which on balance points to a stabilisation of the situation in the economy in Q2 rather than a clear trend. Housing completions have started to increase slightly, but new building permits and housing starts indicate that the supply side should normalise, adjusting to the observed slowdown in price growth.

Construction output lower than expected

Construction output fell in April by 4.2% y/y, visibly more than expected (we: -0.2% y/y, market: -0.6% y/y) and compared to -1.1% y/y in March. In seasonally adjusted terms, output fell by 0.8% m/m, recording a fourth consecutive decline.

April saw a deepening of the decline in construction of buildings (-10.3% y/y vs. -3.4% y/y in March) and in civil engineering (-8.3% y/y vs. -4.9% y/y in March), with an improvement in specialised works (+10.5% y/y from +6.0% y/y). Investment works remained above zero, although also slowed (1.9% y/y compared to 3.5% y/y in March), while renovation work deepened the decline to 16% y/y from 10.1% y/y.

Weak April's data clearly do not bode well for 2Q25 investment outlook, note however that data from local governments showed some awakening of outlays in this sector (+11.2% y/y in 1Q25) and that the April's result could have been negatively affected by Easter. Thus – despite the downward surprise – we continue to believe that investment will gradually accelerate through 2025 and this should also be visible in the construction data.

Decline in developers' activity in the housing market

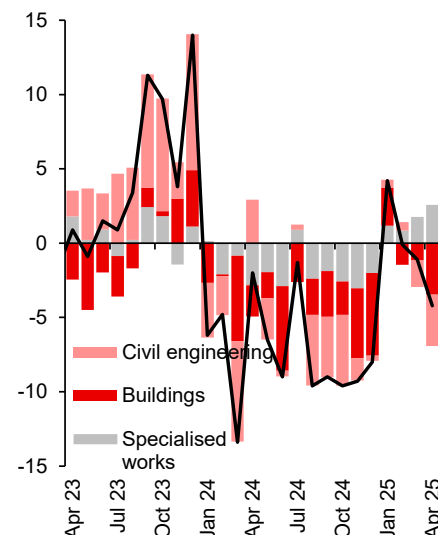
In April, the number of completed dwelling reached 16.1k, 1.2% more than in April last year and around 1k more than the average for the first three months of this year. As a result, the 12M sum of completed dwellings also rose slightly and its growth rate increased from -7.8% y/y to -5.6% y/y. Simultaneously, there was a further deepening of the decline in the growth rate of issued building permits, from -20.7% y/y to -23.4% y/y, and a continued decline in the number of started construction projects, by -5.4% y/y against -8.0% y/y in March and -4.8% y/y at the end of 1Q. In effect, growth in their 12M moving sums slowed from 9.1% y/y to 5.1% y/y and from 8.9% y/y to 5.1% y/y, respectively. As a result of the decline in new supply-side activity, our proxy measure of running housing-construction projects registered its 4th consecutive decline, and the strongest since June 2023.

April's data indicate that although the decline in housing completions observed in previous quarters is gradually slowing, there is a parallel normalisation of new activity of developers, the level of which, measured in particular by the number of issued building permits, is now elevated compared to the pre-pandemic years. The decline in activity is most likely a reaction to the slowdown in price growth in the housing market. In the medium term, the ongoing normalisation should lead to a stabilisation of the housing market.

No clear trend in business climate

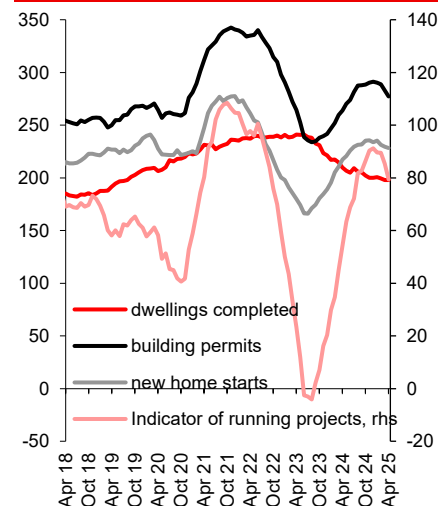
Business climate indicators in May, reported by GUS, were mixed – in manufacturing, transport and logistics, HoReCa, banking and finance they recorded a moderate deterioration (in seasonally adjusted terms); construction saw stabilization, while moods in retail trade and wholesale trade have improved slightly. Business climate assessment is still at lowest levels in manufacturing (below its long-term average), which contrasts with a clear

Construction output, breakdown, % y/y



Source: GUS, Santander

Trends in the housing market, 12M moving sums, thousands



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 +48 691 393 119

Bartosz Białas +48 517 881 807

Marcin Luziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

improvement seen in manufacturing PMI survey in recent months. Overall, the changes in business sentiment in May were minor and we think they do not signal a meaningful change of trend in the economy.

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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>.