

Construction

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2009-06-29

In 2008 growth in investment was slower than in the previous two years when it was in double digit figures.

Investment spending in constant prices by companies employing more than 49 people was higher last year by 8.8% compared to 2007. Investment was slowing from quarter to quarter. In the first half of the year it increased by as much as 22%. The slowdown in investment had an unfavourable impact on the construction sector. Investment was at a low level also in the first quarter of 2009. Gross fixed capital formation increased by a mere 1.2%.

In 2008 construction businesses employing more than nine people recorded a rise in output of 12.9%. The increase was high but lower than projected. In April 2009 construction output was higher by 0.5% compared to the very high level recorded in the same month of last year. In the four months to April construction output was at last year's level – the recorded drop of 0.2% is within the statistical error.

The following trends were present in the building industry in the first four months of the year:

- Growth in construction output was slowing but was still higher than in other sectors;
- Housing construction had a positive contribution to construction output because the number of home completions was still on the rise; it had been expected that the industry would be driven by infrastructure construction;
- Wage growth was slowing; in 2008 construction wages increased by 13%, in April this year they increased by 2.5%;
- Construction prices were also slowing; in April 2009 construction prices increased by 0.8%;
- In May capacity utilisation in the construction sector stood at 75%.

It is obvious that the financial crisis has had a negative impact on construction but its individual segments have been affected in different ways. Development

companies building homes for sale and rent were the first to be affected. Difficulties with the sale of apartments were the first signal of the approaching crisis. Another phase, with a decrease in home starts, began in the last months of 2008 and has continued until today. In January-April 2009 the number of home starts amounted to 38,800, down by 35% year on year. Developers building homes for sale and rent started 55% less homes than a year before. The number of home building permits was on the decrease in all segments. The decrease in the number of home starts will result in a drop in home completions after a time lag.

The situation is different in the infrastructure sector, where the slowdown – but not contraction – is largely due to organisational reasons and only to a slight extent to factors associated with the crisis on the financial markets. Opinions on the reasons behind the slowdown in the infrastructure sector vary. Construction companies say they have sufficient production capacity, which is not fully utilised now. It is believed that the implementation of infrastructure projects is hindered by problems with their preparation. However, despite these unfavourable factors, prestigious projects are not given up: only their deadlines are extended. In the current situation, it is very risky to make forecasts for construction, even for a few months ahead. It is quite likely that the slowdown in construction will be milder than in the wider economy. The overall situation in construction in the years 2009-2010 will be determined by the situation in the infrastructure sector. However, it is necessary to continue removing barriers to growth.