

Construction climate

Zofia Bolkowska, Marek Misiak

2008-07-01

Construction companies are optimistic

Data for the first months of 2008, especially strong indicators in April, suggest that construction may continue to grow fast and may overcome barriers to growth. Construction growth is driven by investment demand. Growth in investment is fast because corporate profitability is high and companies have money to spend for expansion. Construction growth is also boosted by EU funding and foreign direct investment.

In 2007 construction suffered from skill shortages. As a result, construction growth, although high, did not measure up to expectations. Figures for the first months this year indicate that construction activity accelerated. In January construction output was higher by 6.8% year on year, in February it was higher by 20.7%, in March higher by 16.3%, and in April higher by 23%. In the year to April 2008 the increase was 17.0%. All categories of construction companies recorded increases in sales. The fastest growth was recorded by companies preparing sites for development (over 50%). Civil engineering work increased by over 15%. Housing construction was also on the rise in January-April, with the number of newly completed homes being higher by over 30% year on year. The growing number of home permits and starts seems to indicate that the housing situation will continue to improve. There is every indication that 2008 will be the best year since 1990 in terms of newly completed homes.

In January-April average employment in construction was by 11.1% higher than a year before and average gross monthly wages were up by 17.5%. Wages in construction have been growing the fastest and have outpaced the average for the commercial sector for several months now. This is attributable to upward pressure on wages caused by skill shortages. But construction companies have money for wages because their performance is strong. In the 1st quarter the financial situation of construction companies was better than in the 1st quarter last year. Gross and net profit was higher, revenues grew faster than expenditures and profitability indicators improved.

Construction companies are optimistic, as indicated by the recent business outlook survey. In May the outlook was positive and more favourable than in April 2008, though some assessments were more

cautious.

In May 34% of the surveyed companies indicated an improvement and 7% a deterioration in business conditions. The surveyed companies recorded an increase in orders, but expectations for the next three months were moderate. 31% of the surveyed companies, the same percentage as in May 2007, reported they were going to do some construction and assembly work on foreign markets. They expected a slight decrease in orders for construction and assembly services abroad. The outlook on current financial situation was positive. The surveyed companies also expected that in the next three months construction prices might be growing at a slower pace.

In May 4.2% of the surveyed companies reported no barriers to their construction and assembly operations. The barriers created by labour costs, competition from other companies, skill shortages and costs of materials continued to be high: these barriers were signalled respectively by 59%, 55%, 55% and 37% of companies. It is noteworthy that the barrier created by skill shortages was in third place for a second consecutive time while in previous months this barrier was the most important one. Compared to May last year the barriers created by equipment shortages and material costs diminished the most while barriers created by competition and labour costs increased.

Some 7% of the surveyed construction and assembly companies assessed their production capacity as excessive, 77% as sufficient and 16% as too low to meet orders expected in the next 12 months. In May capacity utilisation stood at 85%.

Environmental protection requirements constrain the development of industry and construction.

Environmental protection is particularly important in Poland owing to years of neglect and challenges associated with the development of many industries which have a negative impact on the environment. After entry to the European Union, Poland is additionally bound by the Treaty of Accession and EU directives. Thanks to EU assistance, there is a realistic chance for Poland to catch up with the EU-15 in terms of environmental protection.

The most important task is to reduce hazards resulting from soil, air and water pollution. Soil pollution is caused by unreasonable exploitation of natural resources, inadequate waste disposal and harmful chemicals. Air pollution results mainly from the operation of the power sector, some industrial processes (like coke and cement production, metallurgical and chemical industry, and oil processing), the municipal sector and transport. Under the Treaty of Accession

and EU directives, Poland is required to reduce emissions of carbon dioxide, sulphur dioxide and nitrogen oxides. Poland's energy management has to be streamlined because its efficiency measured by the ratio of energy consumption to GDP is around three times lower compared to the most developed nations and around two times lower than the EU-15 average. Poland is not particularly abundant in water resources. Its water resources per head are three times lower than the EU average while water resources per square kilometre are almost two times lower than the EU average. However, the main problem is water quality. Only 7% of Poland's water resources is of highest purity (class one), around 35% of resources is of medium purity (class two) and as much as 20% is excessively polluted and not classified. As a result, Poland has to invest in the construction of sewage treatment plants and sewerage systems.

Poland is one of the few European countries with surviving large and dense forest complexes, and natural river valleys. Around one third of the country's territory is under protection. Poland has over 30 national parks, almost 1,400 nature reserves and around 120 landscape parks. Poland's Natura 2000 sites of special protection cover over 3 million hectares.

There are numerous bird sanctuaries and wildlife refuges in Poland. Some of the animals and plants, including the lynx, wild cat, beaver, crocus and edelweiss, are under strict protection. Diverse measures have been taken to protect the natural environment and reduce air pollution, including the introduction of modern technologies, production of energy from renewable sources and thermal improvements to buildings, but their scale has been insufficient. In 2006 spending on fixed assets for environmental protection and water management amounted to PLN8.9 billion. But although spending had been growing for three years, it was still lower than in the second half of the 1990s. Spending on environmental protection and water management is not only small relative to needs, but also as a percentage of total investment in the national economy. In 2006 the share of this spending in total investment was 5.7% and its share in GDP was 0.84%. Most of the money – two thirds - was invested in sewage management and water protection, including the construction of municipal sewage treatment plants, sewerage networks and water supply systems. One fourth of the money was spent on air protection, including new fuel combustion technologies, and the modernisation of boiler houses and heat generating plants. Spending on water management involved the construction of water treatment plants, reservoirs and weirs, the regulation and lining of rivers and streams, and the construction of embankments and pump stations.

The sources of funding included own resources of companies (45.6%) and foreign resources (18.1%). The projects were also financed from the national and local

government budgets, and environmental funds. Poland has to spend much more on environmental protection than it currently does. And there is a realistic chance to change this state of affairs thanks to EU assistance funds. Poland has started to implement the Infrastructure and the Environment Operational Programme for the years 2007-2013. The total value of funds to be spent on the programme exceeds EUR37 billion, of which around EUR28 billion will come from the EU's Cohesion Fund and the European Regional Development Fund, almost EUR7 billion from national public sources and around EUR2 billion from national private sources. The money will be spent to modernise transport infrastructure, protect cultural heritage, improve the health care system, support the development of research and the higher education infrastructure, revitalise urban and rural areas and introduce modern technologies. An important part of the programme will involve eliminating environmental hazards, with the following priority areas: water supply and sewage disposal, waste disposal and land conservation, resource management and environmental hazard prevention, measures adjusting companies to environmental protection requirements, nature conservation and promotion of pro-environmental attitudes.

The huge funds set aside for the implementation of the Infrastructure and the Environment programme in the years 2007-2013 create a unique opportunity for Poland to carry out many environmental projects. As a result, through the development of utility infrastructure and improvement in environmental quality, Poland will become more attractive as an investment location.