

Construction

Zofia Bolkowska, Marek Misiak

2010-02-25

In 2009 construction output increased by 3.7%.

The beginning of 2009 was a bad time for construction. In the first half of the year construction output was higher by only 1.4% compared to the high level of a year before. In successive months of the second half of the year construction output was growing, though not as fast as had been predicted. In December 2009 construction output was higher by 3.1% y/y and the increase was lower than expected. In 2009 construction output generated by businesses employing more than nine people was by 3.7% higher than a year before, mainly thanks to road-building projects.

The value of infrastructure projects was higher by 16.4% y/y. There was a drop of 5.3% in specialist construction services, mainly finishing and installation services, and in the construction of service outlets, like hotels, retail premises and warehouses, and residential buildings. Employment in the construction sector increased by 5.3% y/y. After recruitment problems caused by job migration in past years, builders were taking on new staff. Wage growth, which had been very high in 2008, slowed from 13% to 2.8% in 2009. Building companies were introducing cost-cutting programmes.

In December 2009 construction prices were by 0.6% lower than in December 2008, which is attributed to lower prices of building materials and a slowing growth in construction wages. In 2009 construction prices were on average by 0.2% higher than in 2008.

Construction is likely to grow in 2010-2011

In 2009 construction growth was largely due to infrastructure projects. There are many signs indicating that infrastructure projects should continue to be on the rise in coming years and are likely to determine the situation of the whole sector because their share in the sector and development potential is large. The reason is the availability of EU funds for the development of infrastructure and the fact that the potential for growth in other segments of the construction industry in the next two or three years is limited. But signals indicating a shortage of own

resources needed to finance infrastructure projects should not be ignored – the situation may deteriorate in coming years and lead to postponing deadlines for the implementation of projects, including prestigious ones. The most important issue for the infrastructure sector is the need to remove organisational problems and then carry out investment projects.

The non-residential sector is not growing now. The situation will change if foreign investors return to the market. In the residential sector, the number of homes completed in 2009 was only slightly below the record level registered in 2008 but the number of home starts was much lower than in the previous year. This means that the number of completions will be smaller in coming years. However, the drop will not be as sharp as previously predicted thanks to programmes supporting funding for residential building.

In January 2010 builders were pessimistic in their assessment of the general economic climate but slightly less so than in December. 13% of the surveyed companies reported an improvement in business conditions and 28% reported a deterioration.

In January builders reported a drop in order books. Predictions for the next three months were unfavourable, though better than a month before. There were still problems with collecting payments from clients on time. The assessments of the builders' current financial situation and projections were unfavourable. Prices of construction services will be decreasing at a slower pace than previously predicted. There were marked differences in the situation of construction companies depending on their size. As in previous months, the assessments provided by large companies were better than those made by small and medium-sized firms. Also, large businesses recorded a smaller drop in order books. Only 3.1% of the surveyed companies said in January 2010 that there were no constraints on their activity. Competition from other companies was the most serious barrier – it was indicated in January by 55% of the surveyed companies. It was followed by labour costs (47%) and insufficient demand (also 47%). Compared to January last year, the significance of the barrier associated with a shortage of well-qualified workforce diminished from 32% to 14%. It is noteworthy that among the barriers to construction growth builders do not mention "the long time" needed to prepare projects for implementation. Compared to January last year, builders reported a drop in production capacity utilisation – from 76% to 63%.