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Economic Comment

More February data above expectations

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Construction output rose in February by 5.6% y/y (or 5.8% y/y after seasonal adjustment), which was way above market expectations (near 1% y/y). Retail sales rebounded to 7.3% y/y in February from 3.4% y/y in January with a broad-based recovery in most categories and also beat consensus at about 4% y/y. March sectoral business sentiment indicators worsened (albeit still did not reflect the situation after the lockdown as the GUS business sentiment surveys are collected in the first 10 days of each month). The today's data, together with better than expected results of manufacturing, imply that the scale of GDP growth deceleration in 1Q might not be very dramatic (yet), even taking into account possible losses after the country lockdown in mid-March. The big deterioration in economic activity is yet to come, though.

Construction output rose in February by 5.6% y/y (or 5.8% y/y after seasonal adjustment), which was way above market expectations (near 1% y/y). The biggest jump was recorded in firms dealing with specialised construction (11.7% y/y) and civil engineering (9.9% y/y), while construction of buildings rose 2% y/y. Even if the results were partly supported by very good weather, it looks like if a rebound in infrastructure investment has been under way at the start of the year, contrary to our earlier assumptions about a deadlock in this area.

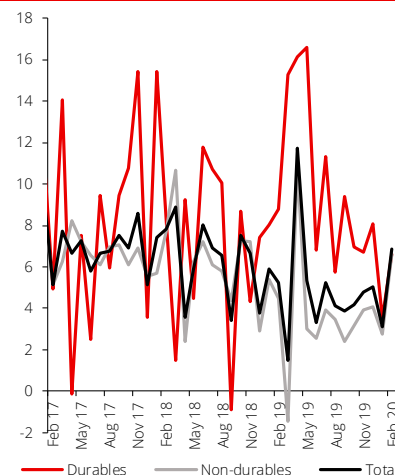
In February, the **housing construction** sector remained highly active. The 12M sum of houses completed and of housing starts set new records (the highest numbers since at least 2000) while the 12M sum of building permits has remained stable since 4Q, near record levels. The number of buildings under construction continued to grow at c4% y/y in February.

Retail sales rebounded to 7.3% y/y in February from 3.4% y/y in January with a broad-based recovery in most categories. The most significant jump was visible in pharma and cosmetics (12.5% y/y from 2.9% y/y in January), which we would connect to the Coronavirus effect. Sales of durable goods jumped to 6.6% y/y from 3.5% y/y in January, so clearly consumers started spending more also on non-essential goods at the start of 2020. Nevertheless, We are expecting retail sales numbers to deteriorate significantly in the months to come due to COVID-19 related measures.

In March, sectoral **business sentiment indicators** worsened. In some cases the drop was significant: transport and storage, hotels and restaurants – both are now the lowest in six years. The decline came mostly from much worse expectations across sectors (excluding construction), while the current assessment components worsened to a limited extent (and in case of industry it even improved). Financials and ICT look the least affected so far. Notice that the GUS business sentiment surveys are collected in the first 10 days of each month, so the views expressed by companies still do not reflect the situation after the lockdown.

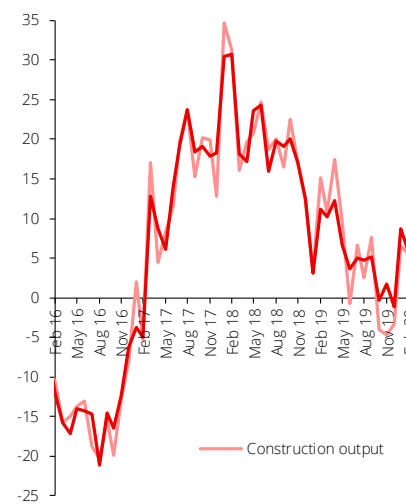
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Retail sales, % y/y



Source: GUS, Santander

Construction output, % y/y



Source: GUS, Santander

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