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Economic Comment

Customers return to shops

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May retail sales surprised to the upside with a 7.7% decline in annual terms (consensus: -11.7% y/y, our call: -14.0% y/y). While a rebound from -22.9% y/y in April was widely expected due to gradual easing of lockdown measures (reopening of shopping malls on 4th May), the scale of recovery came as a positive surprise. In June, sectoral business sentiment indexes all improved again, and at a higher pace than in May.

Retail sales stronger than expected

A rebound was visible in all categories, with two clear outperformers: clothing (-8.2% y/y in May from -63.4% y/y in April) and furniture/household appliances (+14.4% y/y in May from -16.9% y/y in April). The latter category has actually posted the highest growth rate since July 2019 and in our view this is an effect of postponed demand so we are expecting this momentum to ease in the following months. Other strong contributors were: fuels (-17.9% y/y in May versus -32.9% in April) and food (-7.6% y/y from -14.9% y/y). In our view, the "food" category contains mostly small shops, while supermarkets are included in "other sales in non-specialised stores". While GUS decided to hide this category due to compliance issues, our estimates suggest that the epidemic hardly affected total sales in the sector.

Customers' return to physical shops was also visible in internet sales data, with its share falling to 9.1% in May from 11.9% in April. The decline was most visible in clothing: 26.8% in May versus 61.3% in April (despite decline in share, total volume of clothing internet sales remained flat).

We are expecting a further normalisation of retail sales in the upcoming months, yet it will be not as spectacular as in May. Moreover, the effect of lower households' disposable incomes growth will be undermining the retail sales dynamics in the upcoming quarters.

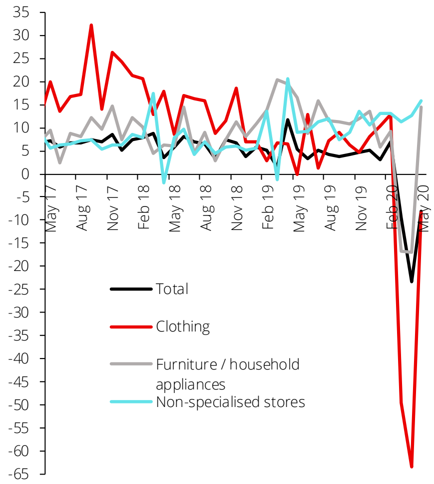
Further and broader improvement of business sentiment

In June, sectoral business sentiment indexes all improved again, and at a higher pace than in May. The levels of business sentiment in some sectors are already close the lows reached during the global financial crisis (industry, construction, transport), in some we are still below them (trade, hotels and restaurants, financials and insurers). While the May sentiment improvement across all sectors was based solely on better expectations, in the June print both the current assessment and expectations components went up (with exception of current assessment by financials and insurers). Expectations index for hotels and restaurants is now above the levels recorded in 1Q average (this the only such case so far among the sectors).

The Covid part of the monthly survey shows that in June companies still called the consequences of the pandemic to their business mostly as serious (the share is between 32% for construction to just over 50% for retail,). However the share of hotels and restaurants that fear about business stability dropped from 52% to 34% and in retail trade from 16% to 12% (for others the share was lower and more less stable). The reported share of companies facing unplanned leaves due to the pandemic fell by 1-2% across sectors, e.g. from 10.3% to 8.6% in industry. Firms reported somewhat better data on own purchases and new orders, e.g. industry now sees new orders at -17.5% y/y vs -21.3% previously.

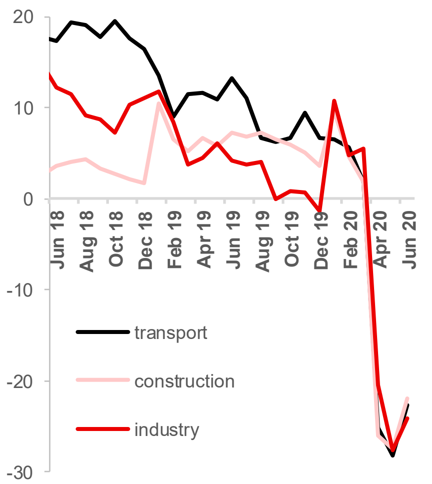
June business sentiment report is another sign that the trough is behind us and a gradual recovery has started.

Retail sales, % y/y



Source: GUS, Santander

Business sentiment, current situation indexes



Source: GUS, Santander

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